



Working paper



AfCFTA and rules of origin for the textile and apparel industry in Africa

What to know in the context of the AfCFTA

Prachi Agarwal, Faizel Ismail, and Vuyiswa Mkhabela
April 2023

Supporting Investment and Trade in Africa

Abstract

This paper is intended to stimulate a balanced debate on the appropriate rules of origin for the African Continental Free Trade Area (AfCFTA) in the textile and apparel sector. It argues for a ‘developmental regionalism’ approach to the AfCFTA rules of origin that supports a Made in Africa approach that will facilitate the diversification of Africa’s economies towards higher-value production and the creation of regional value chains in the textile and apparel industry. Trade and production data on the industry is used, and lessons drawn from successful cases in the region that developed regional value chains. The paper finds that AfCFTA rules of origin can be used to create a large internal market to attract domestic, regional and international investments to spur production and exports from Africa.



Readers are encouraged to reproduce material for their own publications, as long as they are not being sold commercially. ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI or our partners.

This work is licensed under CC BY-NC-ND 4.0.

Agarwal, P., Ismail, F., and Mkhabela, V. (2023) *AfCFTA and rules of origin for the textile and apparel industry in Africa*. ODI Working Paper. London: ODI (<https://odi.org/en/publications/afcfta-and-rules-of-origin-for-the-textile-and-apparel-industry-in-africa>)

Disclaimer: the content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

Acknowledgements

About this publication

This briefing was prepared by Prachi Agarwal (ODI), Faizel Ismail (NMS-UCT), and Vuyiswa Mkhabela (NMS-UCT). The authors would like to thank Isabel Mullens (ODI) for research inputs and Liako Mofo (TIPS), Max Mendez-Parra (ODI), and Dirk Willem te Velde (ODI) for comments on an earlier draft.

The briefing has been funded as part of the Supporting Investment and Trade in Africa programme, funded by the UK FCDO. All views provided are those of the authors and not the responsibility of ODI or UK FCDO.

About the authors

Prachi Agarwal is a Senior Research Officer at the International Economic Development Group at ODI. Faizel Ismail is the Director of the Mandela School of Public Governance at the University of Cape Town. Vuyiswa Mkhabela is a Research Officer at the Nelson Mandela School of Public Governance at the University of Cape Town.

Contents

Acknowledgements / i

Display items / iii

Acronyms / iv

Executive summary / 1

Literature / 1

Textile and apparel sector / 1

Opportunities under the AfCFTA / 3

1 Introduction / 6

2 Literature review: rules of origin / 9

3 Current trends in textile and apparel production in Africa / 14

3.1 Developed RVC: Southern Africa / 14

3.2 Emerging/developing value chains: East African / 16

3.3 International connect: North Africa / 19

4 The textile and apparel sector under the AfCFTA / 20

4.1 Developmental regionalism / 20

4.2 Preventing transshipment / 22

4.3 Creating regional hubs / 22

4.4 Attracting investment / 23

4.5 Policies for wider impact / 25

4.6 Complementary supply-side measures / 26

5 Conclusion / 28

References / 29

Appendix 1 Additional tables / 32

Appendix 2 Data briefs / 35

Brief 1: Exporters of Intermediate goods / 35

Brief 2: Intra-Africa trade / 35

Appendix 3 Glossary / 36

Display items

Boxes

Box 1 Lessons from ASEAN's success in creating textiles and clothing RVCs / 21

Tables

Table 1 Qualitative impact assessment and illustrative examples / 25

Table 2 Key features of the rules of origin in selected RECs and free trade areas in Africa / 33

Table 3 Yarn imports of top Sub-Saharan (SSA) apparel exporters / 34

Table 4 Fabric imports of top SSA apparel exporters / 34

Figures

Figure 1 Criteria to determine preferential RoO / 9

Figure 2 Cotton-apparel value chain / 12

Figure 3 Bilateral, diagonal, and full cumulation / 32

Acronyms

AfCFTA	African Continental Free Trade Agreement
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
CMT	cut, make and trim
EAC	East African Community
ECOWAS	Economic Community of West African States
EU	European Union
FTA	free trade agreement
GVCs	Global Value Chains
HS	Harmonised System
LDCs	Least Developed Countries
PTA	preferential trade agreement
REC	regional economic community
RoO	rules of origin
RTA	regional trade agreement
RVC	regional value chain
SADC	Southern African Development Community
UK	United Kingdom
US	United States
WTO	World Trade Organization

Executive summary

Free trade agreements (FTAs) and regional trade agreements (RTAs) use rules of origin (RoO) to determine the national origin of products and to establish the thresholds for local content or value-added before the products are re-exported. RoO are intended to encourage and incentivise investment, particularly in higher value-added manufacturing and services and, in doing so, stimulate regional integration and development of regional value chains (RVCs). In Africa, there is a long-standing debate over how a region of 55 countries can benefit from regional integration. In this context, a number of researchers, scholars, and international economic organisations have called for a ‘developmental regionalism’ approach to regional integration on the continent.

Literature

The concept of ‘developmental regionalism’ argues for a heterodox economic view of the world incorporating values and solidarity as an essential ingredients to achieve this. This analytical framework calls for regional integration in Africa, led by the African Continental Free Trade Agreement (AfCFTA), to be built on co-operation among African countries in a regional integration framework on four parallel and interconnected pillars: a) cooperation on building mutually beneficial trade integration (fair trade integration); b) cooperation on industrial development and upgrading in RVCs (transformative industrialisation); c) cooperation on investment in cross-border infrastructure and trade facilitation; and d) cooperation on building democracy, good governance, and peace and security.

Although the recent literature on the role of RoO in the AfCFTA recognises the ambitions of member countries to industrialise, very little attention is paid to the creation of RVCs to support transformative industrial and economic development goals. AfCFTA can play a meaningful role in this regard. But caution must be used in designing RoO appropriate for Africa. For instance, relaxed and liberal RoO on existing industries in Africa could be undermined by cheaper imported intermediate products from third countries.

Textile and apparel sector

The textile and apparel industry comprises production and trade along different levels of value addition, characterised as cotton, silk, wool, vegetable fibres, man-made fibres, yarns, fabrics, apparel, made-ups, textiles and carpets. Textile production (i.e. yarn and spinning) ranges from the cultivation and production of cotton fibres to yarn spinning and weaving. The fabric that is produced, together with other inputs such as buttons and zippers, is used for apparel production. Textile production is a relatively capital-intensive industry with significant economies of scale, unlike the apparel segment, which tends to be more labour-intensive. The AfCFTA offers an opportunity for transformative industrialisation in this sector through RVCs.

However, the continent is increasingly dependent on imported textiles, leading to a negative trade balance in the sector. Imports have restricted the growth of local industry, except for the early winners: Morocco, South Africa and Egypt. In an attempt to spur production and local industrial growth, countries have implemented targeted industrial policies. However, the advanced producers on the continent continue to export finished textiles and clothing to extra-regional markets in the United States under the African Growth and Opportunity Act (AGOA) scheme and to the European Union. The AfCFTA thus provides a unique opportunity for the continent to spur the growth of RVCs through investment in upstream and downstream firms that can cater to regional demand and reduce the reliance on imported textiles and used garments.

Several successful (or at least mixed-success) cases of regionally integrated value chains or the development of national value chains already exist on the continent. Drawing on work by Whitefield et al. (2021), these are usefully summarised in several groups, as follows.

Southern RVCs

Lesotho, Eswatini and South Africa

Southern Africa has the most advanced RVC, with Zambia and Zimbabwe exporting mainly cotton fibres, and Lesotho, Mauritius, South Africa and Eswatini trading in cotton yarn and fabrics. South Africa is central to developing value chains in the region; as it was an early receiver of foreign direct investment (FDI), which allowed for strong economic growth within the industry. It is also one of the largest sources of FDI in Africa.

Mauritius, Madagascar and South Africa

Mauritius was an early textiles mover. It began attracting investments in the early 1980s from apparel manufacturing firms from Hong Kong, as well as from European countries that were beginning to offshore apparel production. Mauritius had the most textile and apparel firms in Africa in 2019 (131 firms), of which 97 percent were locally owned. Mauritius is the only country with fully developed vertical integration in knit, woven fabric, and yarn production. Mauritian firms export fabric to Madagascan companies and were the second-largest foreign investors in Madagascar. Mauritian firms also have close relationships with South African retailers, supplying them with products produced in factories in Mauritius and Madagascar.

Emerging/developing value chains: East African

Export orientated , weak backward linkages and localisation: Kenya

Kenya has had a domestic textile and apparel industry for many years, but sustainable growth in FDI and exports began when AGOA was enacted in 2000. Kenya was also the first AGOA-eligible country to complete the additional requirements necessary for the apparel provision in January 2001 that allowed Kenya to export single transformation rules of origin (allowing Kenyan manufacturers to import fabric from outside the region).

However, it suffers from a lack of a clear industrial policy, and foreign firms dominate. Global buyers sourcing from Kenya were concentrated among a few large US buyers, They did not invest in Kenya's textile mills due to the high cost of electricity and uncertainty about political support from the government. This limited them to producing mostly basic products.

Merits of government incentives: Ethiopia

The apparel export industry is central to the Ethiopian government's proactive and targeted industrialisation policies, which include preferential trade deals, up to nine years of tax holidays, land policies and duty-free imports of machinery, equipment and construction material. The government focused on local investment in export-quality fabric and encouraged overseas textile producers to set up operations in Ethiopia.

Ethiopian apparel exports began to take off in the late 2010s as the government persuaded large US and European buyers to source from Ethiopia and suppliers to invest. This helped them move them out of 'cut, make and trim' (CMT) and into higher value-added production.

International connect: North Africa

Egypt and Morocco

Egypt is an attractive destination for foreign investment in the textiles and garments industry as it is well-located for trade to both Asia and Europe, and has high-quality and low-cost cotton, high-quality domestic infrastructure and abundant human resources.

Morocco became one of the largest exporters and importers in Africa, with total trade reaching US\$7.3 billion in 2019. Final apparel and textiles comprised 96 percent of all exports from the industry. Most of these exports were to the European market due to the physical and cultural proximity to Spain and France.

Opportunities under the AfCFTA

Production of African apparel mainly takes place within global value chains (GVCs) that are primarily geared towards supplying branded products to developed country markets. These GVCs are dominated by lead firms that provide intermediate inputs to African countries to be processed under CMT arrangements. African producers tend to be engaged at the extremes of the production process, either as suppliers of raw materials or in low-value assembly activities (such as CMT), where broader developmental benefits are more limited. In addition, African producers had limited bargaining power in the context of captive global value chains. This raises the following issues about how best to address RoO in the African textile and apparel sector with a view to the continent's industrial transformation.

Development regionalism

The AfCFTA is a potential game-changer for stimulating Africa's RVCs. Policymakers need to use this opportunity by developing trade and industrial policy instruments to incentivise investment in textile production, plugging the gap between cotton and garment production.

Moreover, the relatively high levels of protection in textile and apparel between the different regional economic communities indicate that tariff liberalisation under the AfCFTA offers a huge opportunity for intra-regional trade. African economies can enter GVCs in low-value segments through foreign supplier firms and localisation of the supply chain. In addition, local producers will provide linkages to the rest of the domestic economy; creating backward linkages into the local economy is the key to dynamic and sustainable industrialisation.

Preventing transshipment

Liberal RoO can lead to the transshipment of goods from third countries, and FTAs can be used by overseas parties to flood markets with foreign manufactured goods. This can lead to the decimation of local manufacturing. African policymakers will need to ensure that RoO do not undermine existing local textile production and turn the AfCFTA into a market for third-country suppliers, creating jobs in other parts of world but not in Africa.

Creating regional hubs

The bulk of intra-regional trade is made up of intermediate and manufactured products. Africa's LDCs are still mostly primary commodity producers and have yet to achieve significant industrialisation or benefit from dynamic and higher-value-added trade. However, with the launch of the AfCFTA, many African countries can become significant players in the development of RVCs. They can be facilitated by creating regional economic hubs, spurred by sub-regional and regional investment and production. This will create backward and forward linkages that spill over local borders. But while apparel production is important to build production capabilities in Africa, it is textile production that is the stronger source of innovation and linkages to other industries.

Attracting investment

The textile and apparel industry is in need of new investment, domestically, regionally and globally. After the signing of the AfCFTA, the new RoO will affect the overall structure of the industry, trade patterns and investment trends. Restrictive RoO boost demand for locally produced raw materials and intermediates (upstream industries) at the expense of imported ones that can attract investment in the entire supply chain located in a single country or a region. Moreover, stricter RoO may also attract RoO-jumping investment in upstream industries to supply intermediates to

the local producers at high prices. Conversely, flexible or non-binding RoO can attract investment in downstream industries that use imported inputs for final assembly or processing of goods that can be then exported.

In the case of the textile and apparel industry in Africa, RoO will impact the source and volume of investment flowing into the sector, whether domestically, regionally, or from foreign investors. Sub-regional or regional investment could spur the creation of production hubs and value chains.

There are two ways to implement the RoO. One is using a two-stage phased approach: first introducing relaxed RoO that would allow for imported inputs and low local content requirement, and later shifting to stricter RoO to incentivise investment in upstream industries. The other would be to permit LDCs on the continent to apply relaxed RoO in the form of low local content requirements or cumulative rules that allow for regional rather than purely local content. The advanced economies on the continent, on the other hand, would be able to apply stricter RoO, including single or double transformation, or high local content requirements.

Inclusive policies for wider impact

AfCFTA policymakers need to address the fact that most African countries do not have the capacity to meet more stringent RoO and thus benefit from the AfCFTA preferential tariffs. Policy measures should be considered which increase the capacity of LDCs to industrialise and participate meaningfully in RVCs and manufactured exports. However, careful consideration needs to be given to not undermining the existing producers of manufactured goods by lowering the threshold for imported inputs from third countries. Some policy options to consider are:

- imposing quotas on exports from LDCs
- allowing cumulation of rules of origin
- providing technical assistance to LDCs to implement RoO and to support exporters
- building the capabilities of local firms crucial to local supply chains
- supporting the creation of attractive investment conditions
- supporting regional initiatives to upgrade infrastructure and create common regulatory frameworks
- addressing the issue of second-hand garments

1 Introduction

FTAs and RTAs use RoO to determine the national origin of products and to establish the thresholds for local content or value-added before the products are re-exported. RTAs are preferential in nature as they are intended to benefit signatory countries, but they are open to exploitation by competitive third countries that use a member country of the RTA (that has a low external tariff) as a springboard to penetrate the entire regional preferential market. Such a scenario could undermine the industries of countries within the RTA. To avoid this, RoO are used to determine the national origin of a product and to establish the thresholds for local content or value-added before that product is re-exported.

Twenty-first century RTAs, such the Association of Southeast Asian Nations (ASEAN) FTA, the United States-Mexico-Canada Agreement and even the European Union's (EU) single market, are about more than simply opening markets between preferred trading partners. They are also intended to encourage and incentivise investment in higher value-added manufacturing and services and, by doing so, stimulate development of RVCs. Thus, in many cases, RoO serve a dual purpose: to increase intra-regional trade flows, and to stimulate investment in higher-value-added production and regional production value chains. Most modern RTAs include a range of other complementary trade measures that focus on harmonising and simplifying customs regulations to reduce trade costs and improve trade facilitation. In addition, RTAs attempt to create a more conducive environment for investment by including rules, for example, on investment, intellectual property rights and competition.

Issues related to equity and balance within FTAs have created a great deal of debate across the world, especially in the past decade, with US President Donald Trump criticising 'free trade' rules in the WTO and North American Free Trade Agreement (NAFTA) as being unfair to the US. The United Kingdom left the EU, with proponents of Brexit arguing that the rules on the free flow of goods, services, capital and labour had more costs than benefits (Ismail and Grunder, 2020). The crisis of integration in the EU over the past decade has been attributed to a lack of solidarity and the rise of mercantilist or interest-driven approaches by the larger economies (Stiglitz, 2012). In Africa, there is a long-standing debate over how a region of 55 economies (with differing economic development levels) can ensure that poorer and weaker economies – specifically the continent's 34 Least Developed Countries (LDCs), 16 Landlocked Least Developing Countries and six Small Island Developing States – can also benefit from regional integration. In this context, several researchers, scholars, and international economic organisations have called for a 'developmental regionalism' approach to regional integration in Africa (UNCTAD, 2013; UNECA, AU and AfDB, 2017; Davies, 2019, 2021; Ismail, 2021).

The concept of 'developmental regionalism' argues for an approach to regional integration that is based on a heterodox economic view of the world and incorporates solidarity as an essential value for achieving this. This analytical framework calls for regional integration in Africa, led by the

African Continental Free Trade Agreement (AfCFTA), to be built on cooperation among African countries based on four parallel and interconnected pillars: a) cooperation on building mutually beneficial trade integration (fair trade integration); b) cooperation on industrial development and upgrading in regional value chains (transformative industrialisation); c) cooperation on investment in cross-border infrastructure and trade facilitation; and d) cooperation on building democracy, good governance, and peace and security (Ismail, 2021). This is important context for the discussion under way among AfCFTA negotiators on RoO, who have yet to agree the rules for the continent's textile and apparel sector.

There are different academic and policy approaches to establishing RoO. On the one hand, policymakers could adopt a narrow trade perspective prioritising the objective of increasing trade efficiency and reducing trade costs for manufacturers. On the other, the developmental objectives of the RTA, such as transformative industrialisation and the creation of regional value chains, could be prioritised. A narrow approach to RoO requires fewer variables, while a broader approach is more complex and requires balancing different policy objectives. The latter also calls for an inclusive approach to trade that enhances the participation of poorer and more vulnerable African economies in the AfCFTA.

Although the recent literature on the role of RoO in the AfCFTA recognises the ambitions of member countries to industrialise, very little attention is paid to the creation of RVCs to support transformative industrial and economic development goals. (Tsowou and Davis, 2021; Gourdon et al., 2021a). Recently, a comprehensive report on RoO produced by UNCTAD (2019) identifies the key challenges to Africa's industrialisation and explores how the AfCFTA can play a meaningful role in driving transformative industrialisation on the continent by developing RVCs. However, the report ignores the negative impacts of relaxed and liberal RoO on existing industries in Africa that could be undermined by cheaper imported intermediate products from third countries (UNCTAD, 2019).

One of the reasons for this unhelpful analytical trend in the literature is the conflation of the protectionist role of RoO and how RoO can be used in regional integration processes to advance the objectives of 'developmental regionalism' (Melo and Portugal-Pérez, 2014; Gourdon et al., 2021a). Thus, this paper argues that increasing the efficiency of intra-regional trade and supporting transformative industrialisation are both critical for the successful implementation of the AfCFTA. It is therefore the lens of 'developmental regionalism' through which this paper looks at the current debate on RoO in Africa's cotton and textile apparel sector (Ismail, 2021; Davies, 2019, 2021; UNCTAD, 2013; UNECA, AU and AfDB, 2017).

The next section of this paper outlines the different types of RoO, provides a brief overview of the approaches to RoO adopted by Africa's regional economic communities (RECs), and explores the mainstream academic literature on RoO in textile and apparel sectors. Following this, the third section highlights current trends in the cotton, textile and apparel production, exports, and regional value chains in Africa. The fourth section argues that the AfCFTA should adopt a

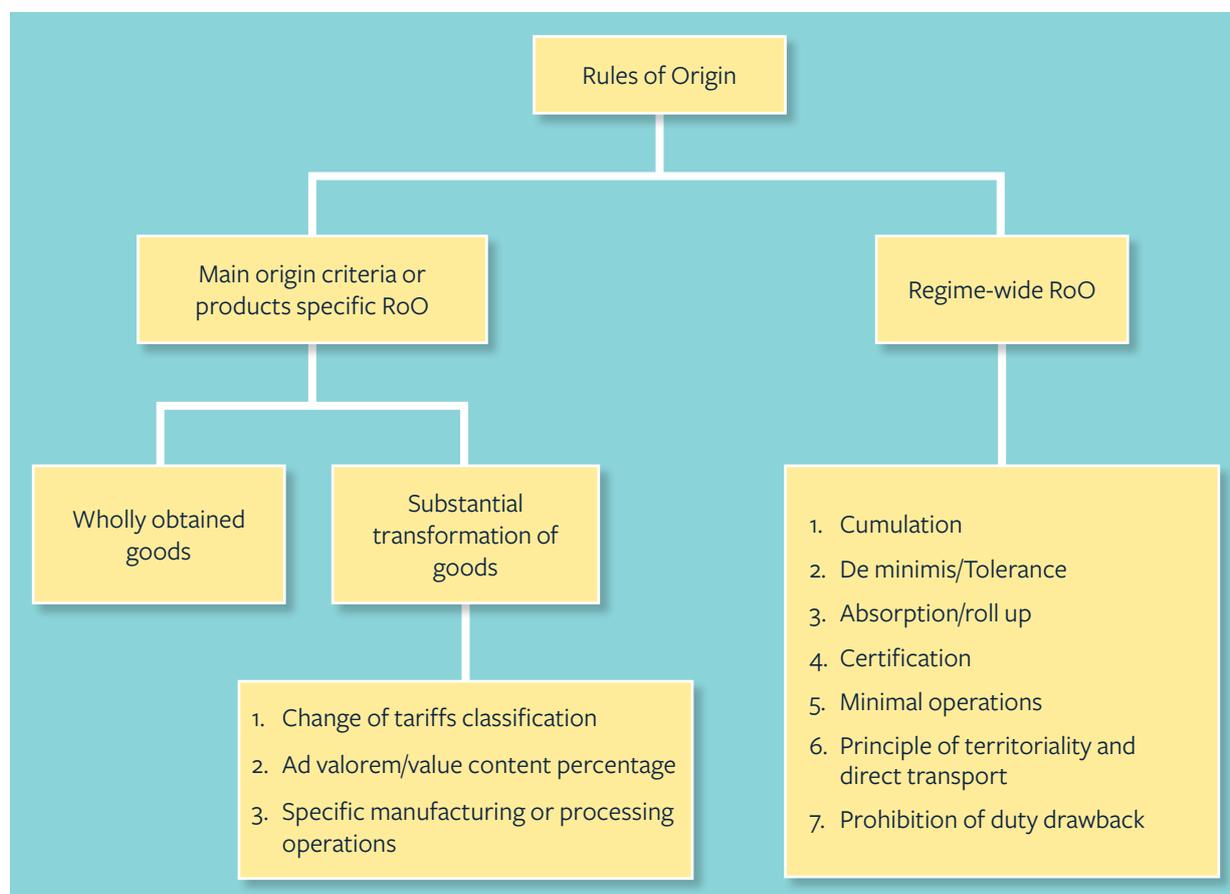
developmental regionalism approach to its RoO negotiations in the cotton, textile and apparel RVC, and some recommendations for policymakers and negotiators are provided. Section five concludes the discussion by calling for a balanced approach to the debate on the RoO for the cotton, textile and apparel sector in the AfCFTA.

2 Literature review: rules of origin

There are several types of RoO. Work by Gourdon et al. (2021a; 2021b) and UNCTAD (2019) provide useful descriptions of the common uses of RoO in preferential trade agreements (PTAs). A summary of the definitions and descriptions of the several types of RoO outlined by UNCTAD is provided below.

Governments have applied different criteria, rules, and approaches to determine the economic origin or national source of a product. Broadly, there is a distinction between two main types of RoO: a) **product-specific rules** and b) **regime-wide rules**. While product-specific rules apply to a specific sector and specific product, regime-wide rules apply to all products and/or sectors. Some of the rules allow for leniency concerning the main criteria/product-specific rules (such as cumulation). Cumulation relates to non-originating materials imported from a fellow member of a preferential trade agreement or a specific third country. In other words, cumulation allows for non-originating inputs to qualify as originating if they are imported from other members of a free trade or preferential trade agreement or third countries specifically mentioned in the agreement.

Figure 1 Criteria to determine preferential RoO



Source: UNCTAD (2019); Tsowou and Davis (2021).

A distinction is made between bilateral, diagonal and full cumulation (see Figure 4 in Appendix 1). Bilateral cumulation allows materials imported from a fellow member of a free trade area to be treated as originating. Diagonal cumulation is similar but extends to more than two members of the free trade area. This type of cumulation may also be called regional cumulation. The most lenient form of cumulation is full cumulation, which allows a country which is part of a free trade area to consider working and processing procedures to be carried out in any member country. This, in turn, allows for and facilitates the creation of regional value chains (UNCTAD, 2019).

There are two basic criteria for determining the origin of products, namely: **wholly obtained** and **substantial transformation**. The wholly obtained criterion applies to products that have been entirely grown, harvested or extracted from the soil in the territory of a member country or have been manufactured exclusively from such products. The substantial transformation (or sufficient working or processing criterion) is determined according to the following three sub-criteria, which can be applied separately or in combination, with most regimes using a combination of all three (UNCTAD, 2019; Tsowou and Davis, 2021):

- a) **Change of tariff classification:** According to this criterion, if an imported input is processed to a certain degree, this will result in the exported product being classified under a different tariff classification than all of its imported inputs. This implies that the final product must be of a different tariff classification than the imported goods used in its production. The rule is usually specified with reference to a level in the Harmonised System (HS) – that is, at the chapter, heading, subheading or tariff line level.
- b) **Ad valorem percentage:** This criterion refers to the percentage of value addition that must take place in an exporting country or within a specified region. It can be expressed as either the minimum share of value addition that must occur or material content that must originate in an exporting country or region, or as the maximum share of non-originating value addition. Non-originating value refers to the value of imported inputs in relation to the value of the product.
- c) **Specific manufacturing or processing operations:** This criterion relates to the specific manufacturing or processing operations required to confer originating status.

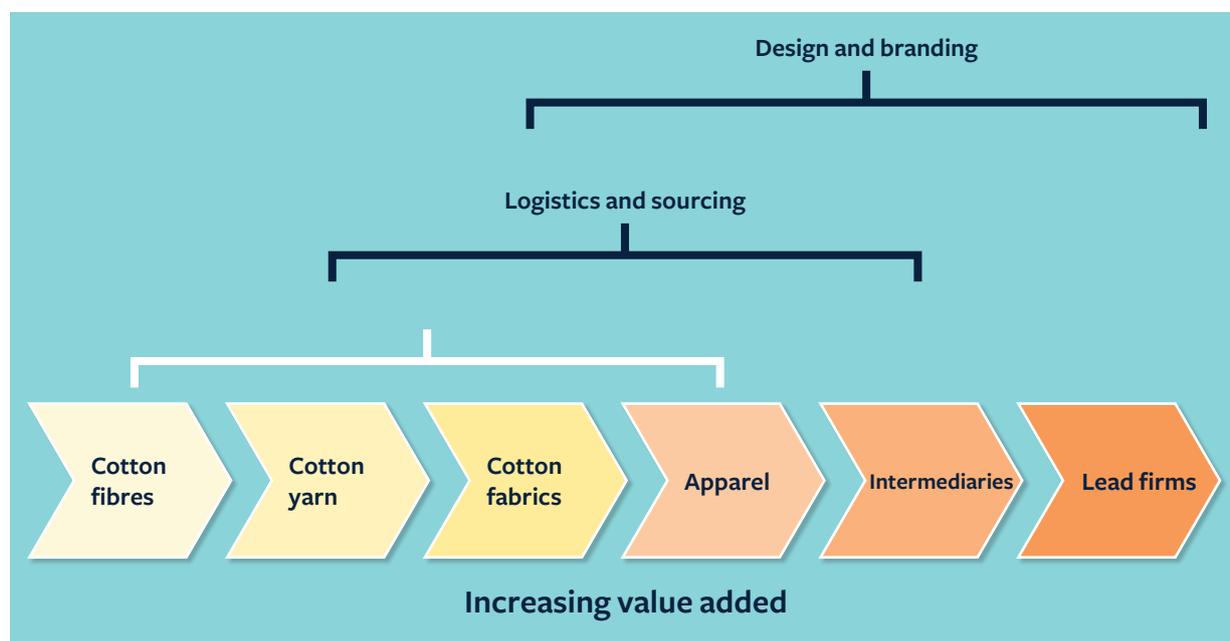
UNCTAD (2019) and Tsowou and Davis (2021) provide a useful overview of the use of RoO across the various African RECs (see Table 1 in Appendix 1). The East African Community (EAC) does not have a general ad valorem percentage criterion applicable to all products, but it has a list of product-specific RoO. The change of tariff classification criterion consists mainly of specifications at the chapter and heading levels. Both the Economic Community of Central African States (ECCAS) and the Economic Community of West African States (ECOWAS) apply a uniform percentage across all products for the ad valorem percentage criterion, amounting to a minimum of 30 percent of regional value content. The Southern African Development Community (SADC) does not apply a general ad valorem percentage criterion. The change of tariff classification criterion consists mostly of specifications at the chapter and heading levels. While the other RECs allow for diagonal cumulation, SADC allows for full cumulation (UNCTAD, 2019). In general,

scholars argue that RoO are not a perfect instrument for determining domestic or originating content (Tsouou and Davis, 2021) and do not always prevent imports from outside the region from obtaining preferential access (UNCTAD, 2019).

The literature on RoO has tended to prioritise efficiency, the need to reduce trade costs, and the need to increase the speed and quantity of trade across borders (Estevadeordal et al., 2011; Melo and Portugal-Pérez, 2014; Hoekman and Inama, 2018). This reflects a scepticism about regional free trade agreements that create preferential trade between members of the ‘club’ and discriminate against third countries. Bergsten (1997) summarised the debate about ‘open regionalism’ – which he saw as a third option between regional integration and multilateralism – taking place within Asia-Pacific Economic Cooperation forum at the time. In his view, the members of the regional integration project would strive to simultaneously open their markets to each other and to the rest of the world. He called for the regional arrangement to be open to all members.

However, there is a gap in the literature on how the RoO can support regional integration among developing countries. UNCTAD (2019) offers some tentative policy recommendations. These policy proposals will be critically discussed in the rest of this paper. Given the focus of this paper, this discussion will focus mainly on the lessons for the use of RoO in the cotton, textile and apparel sector in Africa.

The Fibre, Textile and Apparel Regional Value Chains are made up of three distinct sectors/ segments comprising of production and trade along different levels of value addition. The value chain segments illustrated in figure 3 include firstly, raw materials and fibre production (cultivation and production of cotton fibres, silk, wool, vegetable fibres), secondly, textile production ranging from yarn, spinning and weaving of natural and man-made fibres into fabrics. Lastly, the VC comprises apparel production where fabric together with trims (other inputs such as buttons and zippers) are used for the production of ready-made apparel. Textile production produced upstream is a relatively capital-intensive industry with significant economies of scale, unlike the apparel segment, which tends to be more labour-intensive.

Figure 2 Cotton-apparel value chain

Source: UNCTAD (2019): 141

This industry has the potential to drive Africa's industrial transformation and create millions of jobs. African countries constitute about 6 percent of the global cotton lint production, about 5 percent of global exports of cotton, and 2 percent of global apparel exports (HS Chapters 61 and 62) (UNCTAD, 2019). Africa imports as much as 72 percent of its cotton fabrics. For several African countries, such as the 'cotton four' – Benin, Burkina Faso, Chad, and Mali – cotton is a crucial export and source of income for the local population. Apparel exports constitute a significant percentage of manufacturing exports for nine African countries: Lesotho (52.2 percent), Madagascar (19.4 percent), Mauritius (29.7 percent), Morocco (12.7 percent), Tunisia (15.6 percent), Swaziland (9.2 percent), Cabo Verde (8.6 percent), Egypt (5.5 percent), and Kenya (5.2 percent) (UNCTAD, 2019).

The textile segment is the weakest component of the fibre, textile, and apparel value chains across all African Regional Economic Communities (RECs). Trade liberalisation since the late 1990s and the expiration of the Multi-Fibre Arrangement (MFA) in 2004 have substantially weakened this value chain, especially in terms of textile production, textile and apparel exports, and dwindling employment opportunities. All of these factors have contributed to the premature deindustrialisation of the continent's textile sector.

As a result, the continent has become increasingly dependent on imported textiles, worth approximately US\$20 billion in 2019, accounting for the negative trade balance in the sector (Mold and Chekwoti, 2021). These imports are mainly in the form of second-hand clothing that has restricted the growth of local industry, except for in the early winners: Morocco, South Africa and Egypt. In an attempt to spur production and local industrial growth, countries have restricted

imports of second-hand clothing and also implemented targeted industrial policies.¹ However, the advanced producers on the continent continue to export finished textiles and clothing to extra-regional markets in the US under the AGOA scheme and to the EU.² The AfCFTA thus provides a unique opportunity for the continent to spur the growth of RVCs in the industry through investment in upstream and downstream firms that can cater to various levels of value addition.

Except for South Africa, which exports 50 percent of its textiles and clothing to other African countries, the African textile and apparel industry primarily exports to global markets, with only a small share of exports dedicated to local or regional markets. For example, Morocco and Tunisia each export only 2 percent of their textiles and clothing to the African market. The AfCFTA provides a major opportunity for intra-African trade because of the significant preferential margins between Africa's sub-regions. AfCFTA negotiators have three options for developing RoO in the cotton, textile and apparel sectors, namely: triple transformation, double transformation, and single transformation.

- Under triple transformation (which is used in the NAFTA), the fibre, fabric and garment must be processed within the region for the final good to be eligible for preferential treatment (cotton → yarn → fabric → apparel).
- Under the double transformation requirement, two stages of production must take place in the region concerned (yarn → fabric → apparel) for origin determination.
- Under the single transformation requirement, only one production step needs to take place within the region for the product to acquire originating status (fabric → apparel).

1 For example, Rwanda implemented an industrial policy for the textiles and clothing sector that led to its expulsion from AGOA.

2 The negative effects of strict RoO applied by the EU and the US to LDC exports in these markets under preferential rules, such as the EU Generalised Scheme of Preferences and AGOA, were widely criticised (UNCTAD, 2019). The argument made was that LDCs were prevented from taking advantage of preferential tariffs due to the strict RoO on imported textiles, and that more lenient RoO would instead support the competitiveness of apparel industries by allowing them to use the cheapest inputs, regardless of their origin. Under pressure, the EU reformed its rules in 2011. The new rules of origin applied to LDCs under the reformed EU (the Everything but Arms initiative), which changed from a double to single transformation, resulting in significant increases in LDCs exports to the EU and the use of these preferences (UNCTAD, 2019). Similarly, other researchers found that adopting the third-country fabric rule under the AGOA demonstrated how a change from double to single transformation significantly boosted exports of eligible African countries to the US (Melo and Portugal-Pérez, 2014). These writers also use the evidence on the efficacy of the single transformation RoO in the case of AGOA, and the renewed EU Generalised Scheme of Preferences, to argue that single transformation is more beneficial for African apparel exports. These examples, it is argued here, illustrate how LDCs can increase their exports to third countries. However, these cases do not provide insights for the policy objective of increasing intra-regional African trade, especially that of higher-value-added manufactured goods.

3 Current trends in textile and apparel production in Africa

The discussion reviews the status of production and trade structures on the continent, drawing heavily on Whitfield et al.'s large multi-country study (2021). Three sets of textile and apparel value chains located on the continent, emerge from this work: (a) developed RVCs in Southern Africa – Mauritius, Madagascar, South Africa, Lesotho and Eswatini (b) emerging/developing value chains in East Africa where countries have developing and/or strong industrial policies but facing challenges with localisation – Kenya and Ethiopia; and (c) global value chains located in North Africa producing for export outside the continent – Morocco and Egypt. A review of these three sets of value chains provides researchers and policymakers with insights into how national and regional value chains can be developed on the continent and the investments required in developing textile production.

3.1 Developed RVC: Southern Africa

3.1.1 Lesotho, Eswatini and South Africa

Southern Africa has the most advanced RVC on the continent, with Zambia and Zimbabwe exporting mainly cotton fibres and Lesotho, Mauritius, South Africa and Eswatini trading in cotton yarn and fabrics (Whitfield et al., 2021). Lesotho offers an interesting case study in RVC development. In the early 1990s, Lesotho only had a few textile and apparel factories. Its industry grew rapidly, with mainly foreign firms exporting back to the US, to become the largest private-sector employer in the country, providing more than 50,000 jobs, mainly for women. However, after the 2008–2009 global recession, there was a significant decline. In recent years, the recovery of the textile industry in Lesotho is mostly attributable to the government reorientating its trade and building an RVC (Whitfield et al., 2021). The manufacturing sector grew by 34 percent between 2014 and 2019, mainly because of a tripling of textile and apparel exports to South Africa, which helped offset the decline in exports to the US. This is an apt example of the potential advantages that greater dependence on regional markets may confer, including reduced demand volatility and guaranteed market access conditions (Mold and Chekwoti, 2021). Most textile imports to Lesotho come from Asia; yarn imports and fabric imports only account for 21.1 percent and 17.8 percent, respectively (ibid).

In Eswatini, the share of regional fabric imports is much higher: 80.6 percent of yarn is imported from regional neighbours (38.9 percent from Lesotho, 32 percent from Mauritius, and 9.8 percent from South Africa) and 35.6 percent of fabric is imported from the region, mostly from South Africa. Localisation is limited in both Lesotho and Eswatini. Foreign firms in Eswatini are more integrated into a regional production network geared towards South African retailers, given their

higher capabilities and more flexible production setup. In Lesotho, South African manufacturers have focused on workwear and corporate wear, while the production model of most of the firms exporting to the US market relies on AGOA and relatively cheap wages.

For South Africa too, Lesotho (8.7 percent) and Eswatini (6.3 percent) were the top destination on the continent comprising of apparel and clothing products after Namibia and Botswana. The role played by South Africa is central to developing value chains in the region. For instance, South Africa was an early receiver of FDI which allowed for strong economic growth within the industry. South Africa has now become an important intraregional donor of FDI (Balchin and Calabrese, 2019). In 2011, they accounted for 5 percent of total FDI in Africa as reported by UNCTAD (2012). Today South Africa is the third largest source of FDI to Africa within the manufacturing industry, behind China and India (Che et al., 2015).

3.1.2 Mauritius, Madagascar and South Africa

Mauritius was an early mover. It began attracting investments in the early 1980 from apparel manufacturing firms from Hong Kong, as well as from European countries that were beginning to offshore apparel production, facilitated by colonial networks. These investments began to move into Madagascar in the early 1990s as Mauritius experienced labour shortages and rising wages. Mauritius still had the highest number of textile and apparel firms in 2019 (131 firms), of which 97 percent were locally owned, and 11 had textile production capacity. Mauritius is the only country with fully developed vertical integration in knit, woven fabric, and yarn production (Whitfield et al., 2021).

Mauritian firms export fabric to Madagascan companies and Mauritian firms in Madagascar. Mauritian apparel firms are the second-largest foreign investors in Madagascar. Madagascar's export sector also has a significant share of locally owned firms, which accounted for 42 percent of the 76 textile and apparel firms operating in the country in 2019. Of the total yarn and fabric imports to Madagascar, 9.1 percent and 14.6 percent came from Mauritius. Madagascar has only one local textile mill, producing a range of woven fabric for large orders to US buyers (Whitfield and Staritz, 2020). Mauritian firms export only a limited share of yarn and fabric to South Africa and Eswatini, as shown in Tables 2 and 3 (see Appendix 1). The tables show that this sub-regional African trade in textiles is limited, with only 10.6 percent of total Sub-Saharan African yarn imports and 9.9 percent of total fabric imports coming from the region (Whitfield et al., 2021). However, Mauritian firms have close relationships with South African retailers, supplying them with products produced in factories set up in Mauritius and Madagascar. Whitfield et al. (2021) point out that, in 2018, Mauritius supplied the EU market with 42.6 percent of apparel exports, the US with 21.6 percent, and South Africa with 19.4 percent of its apparel exports.

3.2 Emerging/developing value chains: East African

3.2.1 Export orientation, weak backward linkages and localisation: Kenya

Kenya has had a domestic textile and apparel industry for many years, but sustainable growth in FDI and exports really began when AGOA was enacted in 2000. Investments in Kenya's textile and apparel sector increased at a 21 percent compound annual growth rate between 2000 and 2014 and employment grew by 12 percent at the same time. Exports of apparel to the US under AGOA jumped from US\$8.5 million in 2000 to US\$332 million in 2014 (BizVibe, 2017). Kenya was the first AGOA-eligible country to complete the additional requirements necessary for the apparel provision in January 2001, and as a result they were able to gain access to the US market, quota and duty-free with single transformation rules of origin (this allowed Kenyan manufacturers to import fabric from outside the region). This accomplishment, in combination with the quotas that existed as part of the Multi-fibre Arrangement on Chinese and other Asian exporters, made Kenya an appealing location for mass production of clothing for the US market (World Bank, 2015).

Kenya's government has also been pursuing export processing zones (EPZs) and special economic zones (SEZs) to promote a more business-friendly environment for FDI. EPZs and SEZs encourage FDI by offering incentives such as a 10-year corporate tax holiday and exemption from VAT and duty.³ As of 2018, there were 72 EPZs in Kenya, of which 67 were privately operated and owned (HKTDC Research, 2020.)

However, these signs of encouragement are offset by a series of challenges for the Kenyan economy. Whitfield et al. (2021) point to a lack of a clear industrial policy in Kenya's cotton, textile and apparel sectors. Foreign firms dominate, with Indian owners and large buyers seeking to take advantage of AGOA. In Kenya, the number of apparel export firms fell from over 30 in 2004 to 18 in 2008, as larger firms bought off small firms. By 2019, three to four foreign firms accounted for 80 percent of apparel exports in Kenya (Whitfield et al., 2021).

Global buyers sourcing from Kenya were concentrated among a few large US buyers, including PVH, VF Corporation, H&M, The Children's Place, JCPenney and Levi's. These buyers set up in Kenya because of AGOA preferences, despite relatively high wages and lower productivity than Asian competitors. Foreign apparel firms had textile production in their respective home countries or sourcing networks in Asia through which they shipped fabric to Kenya. According to Whitfield et al. (2021), they did not consider investing in textile mills in Kenya due to the high cost of electricity and uncertainty about political support from the government. There were no stand-alone dyeing and finishing plants, and only a few accessory firms existed. The lack of a textile base in Kenya results in longer lead times for firms producing in Kenya compared to competitor countries. This limits firms operating in Kenya to mostly basic products; these are

3 It should be noted that EPZs differ from SEZs in that they require companies to export a minimum of 80% of their output to destinations outside the EAC and they are more sector focused.

competitive in the US market due to AGOA preferential market access, but in European markets they cannot compete with Bangladesh and Cambodia. With very little localisation, the main benefits of the apparel export industry in Kenya are foreign exchange earnings and employment creation (Whitfield et al., 2021).

There is no significant export-quality textile production in Kenya. Whitfield et al. found about 14 fabric mills operating in the domestic market or part of vertically integrated local firms with domestic market orientation. Most of the local apparel and textile firms only produced for the domestic market, with some reaching the regional market given duty-free access under the EAC (ibid).

3.2.2 Merits of government incentives: Ethiopia

The apparel export industry is central to Ethiopia's industrialisation ambitions. The government's industrial policies have been proactive and targeted (Oqubay, 2015; Cheru et al., 2019). Ethiopian apparel exports began to take off in the late 2010s when a group of large US and European buyers were persuaded to source from Ethiopia and some core suppliers to invest in the country. Whitfield et al. (2021) concluded that Ethiopia is best placed among sub-Saharan African countries to develop an apparel export sector with a larger degree of localisation and with a textile base.

The government provided subsidised financing through the Development Bank of Ethiopia, fiscal and export-promotion incentives, and it built industrial parks to attract investors. By mid-2016, there were 49 local textile and apparel firms, but only 12 exported some portion of their apparel production – seven of which were part of the Pioneer Group (Whitfield et al., 2021). The first apparel industrial park in Ethiopia was built in Hawassa and designed in collaboration with PVH⁴ and some of its core apparel and textile suppliers. PVH decided to focus on producing men's collared shirts in this park and it encouraged a specialised input supplier for men's shirts to locate to the park as well. PVH set up waste management facilities according to Ethiopia's environmental standards – creating an eco-industrial park.

The government built three other apparel and textile eco-industrial parks on a smaller scale in Mekele, Kombolcha, and Adama. A few other large US and European buyers such as H&M, Calzedonia, Children's Place and JCPenney, encouraged their apparel and input suppliers to set up factories in the parks. Whitfield et al. (2021) argue that the Ethiopian government's high-level investment drive in China convinced some large vertically integrated firms to invest in textile production in Ethiopia and to create domestic supply chains.

As the largest receiver of FDI in sub-Saharan Africa, Ethiopia is the recipient of a significant amount of foreign investment in the textile and apparel sector. Ethiopia is an attractive location for FDI in this industry for a variety of reasons, including their stable macro-economic situation,

4 PVH is a brand marketer and owns brands such as Calvin Klein and Tommy Hilfiger.

low-cost electricity, government incentives and attractive free trade agreements with Europe and the United States (Cheu, 2019). The free trade agreements include AGOA with the US and Everything But Arms with the EU. Between 2003 and 2014 Ethiopia received US\$2.5 billion in FDI inflows in the textiles, clothing and leather, and footwear sector, with the top investors in the sector being Turkey, India and China (Che, Geiger and Fu, 2015).

Today, China and India are the dominant sources of FDI in Ethiopian textile and apparel sector, with China accounting for 70 percent of foreign-owned firms in the sector and India 20 percent (Vallejo and Mekonnen, 2021). While data on the amount of investment in China is not available, as of 2018, Indian FDI in the sector was measured at approximately US\$4 billion and around 600 firms. Indian firms have worked to foster value-addition by focusing on investment in products like cotton or yarn which are known to generate additional export value. Other value-added products are vertically integrated into supply chains. For instance, Indian investors have invested around US\$50 million in purchasing local leather and establishing tanneries to allow them to process hide (Oxford Business Group, 2021). Indian investors also established a denim textile mill using local cotton to sell fabric to apparel firms in industrial parks.

Since 2018, Chinese textile companies have also engaged in sourcing and investment plans in Ethiopia. The China Chamber of Commerce for Textiles worked with local Ethiopian textile companies, the Ethiopian Textile and Garment Industry Association and high-level government officials to source agreements and explore investment partnerships (Mordor Intelligence, n.d.). Additional recent projects include Jiangsu Sunshine Group, one of China's leading textile manufacturers, signing a US\$980 million wool textile project agreement. Another Chinese textile manufacturer, Wuxi Yimian, is working on a 300,000-spindle cotton spinning project, while Wuxi Jinmao has invested US\$40 million to set up a dyed fabric and garment factory in Ethiopia (Cheu, 2019).

In addition to the production of woven fabric in Hawassa, many foreign investments were coming through in 2019. These have spread beyond India and China including a synthetic fabric mill by a textile supplier for Italian fashion group Calzedonia in Kombolcha industrial park; These investments increased the potential for apparel firms to source export-quality fabric within Ethiopia, moving them out of CMT and into higher value-added production (Whitfield et al., 2021). In addition, key global suppliers of accessories and packaging secured spaces in industrial parks to produce labels, hangers, zippers, and packaging.

However, Whitfield et al. (2021) observe that these successes did not involve many local firms. In addition, export and domestic markets are segmented in Ethiopia. The domestic market is heavily protected, with a 35 percent maximum tariff, 10 percent excise duty, and a 10 percent surcharge on apparel and textile imports. As a result, local firms produce mainly for the domestic market, where capability requirements are lower and profit margins higher, but here they face competition from Chinese imports and smuggled second-hand clothing, which supply the bulk of the domestic market.

3.3 International connect: North Africa

3.3.1 Egypt and Morocco

In northern Africa, Egypt is an attractive destination for foreign investment in textiles and garments for a variety of reasons. First, Egypt has an excellent geographic location for trade close to both Asia and Europe. Additionally, they have high-quality and low-cost cotton, high quality domestic infrastructure construction and abundant human resources. Lastly, recent adjustments to Egypt's economic structure and investment law introduced further incentives for FDI in the country. In 2008 the Sino-Etaida Suez Economic and Trade Cooperation Zone (SETC), an industrial estate, was built through partnership between the Chinese and Egyptian governments. Located in Suez, Egypt it was built to encourage and invite Chinese companies to set up industries in Egypt. This is the current main area for Chinese textiles and garment enterprises to invest. Recently, the Chinese company Shaoxing Keqiao Leichu Knitting Co., Ltd. signed a textile project of US\$30 million that is expected to result in an annual output of US\$40 million and generate over 500 new jobs. There are also plans for Shandong Ruyi, China's leading textile enterprise, to invest in the region (Cheu, 2019).

Morocco became one of the largest exporters and importers in Africa, with value of total trade reaching US\$7.3 billion in 2019. Final apparel and textiles comprised 96 percent of all exports from the industry. Most of these exports were, however, destined for the European market due to the physical and cultural proximity to Spain and France. Morocco exports to the EU under the EU-Morocco Association Agreement signed in 1998 and the pan-Euro-Mediterranean cumulation of origin system created in 2005.⁵

5 More information available at <https://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco>.

4 The textile and apparel sector under the AfCFTA

Production of African apparel mainly takes place within global value chains (GVCs) that are primarily geared towards supplying branded products to developed country markets. These GVCs are dominated by lead firms that provide intermediate inputs to African countries to be processed under Cut Make Trim (CMT) arrangements (UNCTAD, 2019). African producers tend to be engaged at the extremes of the production process, either as suppliers of raw materials or in low-value assembly activities (such as CMT), where broader developmental benefits are more limited. The decline of the African textile industry in the 1990s and early 2000s has been attributed to structural factors, such as fierce international competition and lower economies of scale compared with their main competitors. In addition, African producers had limited bargaining power in the context of captive global value chains (UNCTAD, 2019). In the first decades of the 21st century, high growth rates in Africa and the positive impact of AGOA has seen the revitalisation of the cotton, textile and apparel sector in a few African countries. However, the African cotton, textile and apparel sector lacks a strong textile manufacturing base and has limited local ownership. Furthermore, most African countries producing for preferential markets in the US are highly dependent on AGOA: the current dispensation will end in 2025 and the US has already terminated the agreement with Ethiopia for political reasons and is in talks with Kenya on a reciprocal free trade area (Ismail, 2021).

The discussion above has raised six key concerns about how best to address the issue of RoO, in the African textile and apparel sector with a view to the advancement and development of the continent's industrial transformation.

4.1 Developmental regionalism

African leaders have a clear and well-established policy objective for industrialisation (see the AU's Agenda 2063 – AU, 2015). African policymakers have argued that the purpose of regional integration should not only be about increased trade but also the development of regional value chains that create dynamic externalities. To this end, it is crucial to incorporate Africa's less developed countries in manufacturing by producing in specific segments of RVCs. However, Africa has yet to fully grasp the massive potential of building RVCs; the AfCFTA is a potential game changer for stimulating them, but policymakers need to use this opportunity by developing trade and industrial policy instruments to incentivise investment, such as textile production in African countries to plug the gap between cotton and garment production. The historic opportunity created by the AfCFTA to establish one African market of 1.3 billion people can be leveraged to attract investors in textile and apparel to set up production bases and build RVCs. Moreover, the relatively high levels of protection in textile and apparel between the different RECs indicate that tariff liberalisation under the AfCFTA offers a huge opportunity for the creation of intra-regional trade and increased investment.

Drawing on international experiences, China was able to leverage its market size in the late 1980s and 1990s – enticing investors in and then increasing the pressure on them to build local capacity and transfer technology. Interestingly, a similar strategy was used by the US and NAFTA, when investors were encouraged to locate within region. Whitfield et al. (2021) argue that while African economies can enter GVCs in low-value segments through foreign supplier firms, economic transformation requires localisation of the supply chain. This means the production of inputs locally and the emergence of capable local supplier firms. These local producers will provide greater linkages of the apparel export sector with the domestic economy (Whitfield et al., 2021), and creating backward linkages into the local economy is the key to building dynamic and sustainable industrialisation.

Box 1 Lessons from ASEAN’s success in creating textiles and clothing RVCs

The global study by Whitfield et al. (2021) points to the lessons that can be learned from the success of East Asia and the 10 members of ASEAN. A regional production system began to emerge with the implementation of the ASEAN Free Trade Area. The original six members (Brunei, Indonesia, Malaysia, Singapore, Thailand and the Philippines) entered the free trade agreement in 2010, while the remaining four (Cambodia, Laos, Myanmar and Vietnam) fully liberalised their tariffs by 2015. Apparel production began to move to the lesser developed ASEAN-4 by 2010, while the more capital-intensive textile production was managed by the ASEAN-6 (Whitfield et al., 2021). A regional production network started to emerge, with, for example, Japanese firms moving more functions to Thailand, including investments in textiles, with lower-value production situated in Cambodia, Laos, Myanmar and Vietnam. Thailand’s textile exports to ASEAN countries increased, as did its apparel exports within ASEAN (ibid).

The EU-Vietnam free trade agreement that was concluded in 2015 and entered into force in 2020. This requires fabrics to be produced domestically or in another country with which both the EU and Vietnam have signed free trade agreements (including South Korea) to qualify for preferential market access (the ‘fabric-forward’ rule). Whitfield et al. note that as both agreements exclude China through strong RoO (from which the bulk of textiles to Vietnam are imported) and other ASEAN countries, it created strong incentives to ‘localise’ textile production in Vietnam.

So far, the ASEAN FTA has resulted in a regional production network in which activities are dispersed by wage levels. The low-income countries of Myanmar, Laos and Cambodia provide cheap labour, and firms in higher-income countries such as Thailand and Indonesia organise marketing, merchandising, and fabric production (Whitfield et al., 2021). More research will be needed to establish the role of the RoO in developing regional supply chains in the ASEAN region. This type of research will help to understand how RoO were used to incentivise investment in textile production, while keeping out more competitive imports of intermediate products from third countries, such as China. These insights could shed light on the role of RoO in the cotton, textile and apparel sector in the AfCFTA.

4.2 Preventing transshipment

One of the consequences of tariff liberalisation within a regional arrangement is the increased flow of goods from more competitive and lower-cost producers, partly due to lower wage levels. Countries with sensitive but uncompetitive sectors with a large labour force that could be lost due to increased liberalisation will face domestic political pressure. Also of concern is if the more competitive producers are not in the region but are in third countries and are using one of the countries within the regional arrangement to transship their goods with a token addition of value. Existing manufacturers would be directly impacted by the potential loss of jobs to third countries because of transshipment. Kaplinsky and Morris (2019) have argued that African manufacturing faces severe challenges in growing their textile and apparel manufacturing activities due to the dominance of China and Southeast Asian countries in global markets. Africa is negatively impacted in two ways: indirectly, as African exports to other markets are blocked; and directly by cheaper Asian imports competing with African manufacturers (ibid).

Thus, liberal RoO can lead to the transshipment of goods from third countries, which can lead to the decimation of local manufacturing, turning a region into a market for externally produced goods. It is clearly not the intention of the AfCFTA to crowd out local production and hinder Africa's industrialisation, and so a range of instruments are required to prevent this potential destructive effect of free trade. African policymakers will need to ensure that the RoO do not undermine existing local textile production and turn the AfCFTA into a market for third-country suppliers and creating jobs in other parts of the world.

4.3 Creating regional hubs

The majority of African countries are LDCs and are reliant on a few commodities for production, jobs and export revenue. In the post-independence period, African commodity producers remained heavily dependent on trade with their former colonisers. However, in recent years, emerging markets (especially in Asia and South America) have become major destinations for the exports of African commodities. African countries that have begun to manufacture or add value to their commodities have also found markets within the continent. Thus, the bulk of intra-regional trade is made up of intermediate and manufactured products.

Africa's LDCs are still mostly primary commodity producers and have yet to achieve significant industrialisation and benefit from dynamic and higher-value-added trade. However, with the launch of the AfCFTA, many African countries become significant players in the development of RVCs. For example, cotton from West Africa could be processed into textiles within the continent, producing intermediate fabric for a growing garment industry in several other African countries such as Madagascar, Kenya and Ethiopia. This will enable many more LDCs to participate meaningfully in higher-value-added intra-regional trade flows.

For large exporters of cotton (Benin, Burkina Faso, and Mali), the total value of exports was US\$1.25 billion in 2019. For Zambia, 90 percent of its cotton exports comprised raw cotton (US\$53.41 million). Exports of silk were led by South Africa, valued at US\$2.1 million in 2019. South Africa also led exports of wool, valued at an average of US\$450 million in the period 2017–2019. Lesotho, Mauritius and Morocco are other large exporters on the continent (UNCTADStats, 2021).

Regional supply chains in Africa can be facilitated by creating regional economic hubs, spurred by sub-regional and regional investment, and production. Textiles investors provide good examples of the opportunity for Africa to industrialise by building regional value chains. The resulting RVCs create backward and forward linkages that spill over local borders. Kaplinsky and Morris (2019) argue that regional integration is often integrally intertwined with RVC expansion, by providing links to global trade through GVCs. The authors point to the positive role of RVCs for smaller economies such as Lesotho, Eswatini and Madagascar that can expand their exports of apparel into the South African market (*ibid*).

RVCs and greater exports can spur industrialisation processes in African economies. Whitfield et al. (2021), however, stress that apparel exports alone cannot drive industrialisation processes as transformative industrialisation requires localisation of the supply chain and the building of technological capabilities. In addition, while apparel production is important for building production capabilities in Africa, it is textile production that is the stronger source of innovation and linkages to other industries (*ibid*). The authors argue that the apparel sector in Africa must be fairly large for foreign firms to consider investing in textile mills. In Ethiopia, there has been some foreign investment in textile mills in anticipation of high demand from firms that have established operations in the country's new apparel industrial parks.

4.4 Attracting investment

The textile and apparel industry is in need of new investment, domestically, regionally and globally. The AfCFTA RoO will affect the overall structure of the industry, trade patterns and investment trends. Restrictive RoO boost demand for locally produced raw materials and intermediates (upstream industries) at the expense of imported ones that can attract investment in the entire supply chain located in a single country or a region. However, in many cases, using more local inputs at non-competitive prices to avail the new preferences under a PTA may raise production costs to such an extent that exports under the PTA are no longer competitive despite the tariff preferences when compared to those that can be imported from third partners (IADB, 2006). Moreover, stricter RoO may also attract RoO-jumping investment in upstream industries to supply intermediates to the local producers at high prices.

By contrast, flexible or non-binding RoO can attract investment in downstream industries that use imported inputs for final assembly or processing of goods that can be exported using new preference margins under a PTA. However, the existing relationships between upstream and downstream industries in a PTA-serviced region can influence the actual impact of RoO (IADB, 2006). For example, if downstream industries are dependent on imported inputs for production, strict RoO under a PTA will mean that firms will need to re-establish supplier links internally to avail the tariff preference of exporting to the internal market. These new suppliers will not be the most competitive ones, and development of new relationships with them will also have costs beyond the cost of inputs.

However, the real trade-off comes in the form of a cost-benefit analysis that determines whether the incentives to source inputs from inside a PTA and export to the PTA market are more than the costs of complying with additional administrative and bureaucratic process to meet the requirements of the RoO regime. Hence, any change in geography, despite inefficiencies, for an exporting firm will be dependent on the payoffs associated with the new preference margins and economies of scale from supplying under the PTA (IADB, 2006).

In the case of the textile and apparel industry in Africa, the RoO that are agreed upon will impact the source and volume of investment flowing into the sector. Sub-regional or regional investment could spur the creation of production hubs and value chains. Ismail (2022) recommends a two-stage phased approach: the first phase would include relaxed RoO that would allow for imported inputs and low local content requirements; this could later shift to stricter RoO to incentivise investment in upstream industries and establish strong supplier relations. However, he also points out the downside of this two-phased approach: an influx of imported textiles and garments in need of simple value addition such as adding buttons and zippers to take advantage of the free trade area, which could decimate the local manufacturing industry.

An alternative path could be where the LDCs on the continent are permitted to apply relaxed RoO in the form of low local content requirement or cumulative rules that allow for regional rather than purely local content. The advanced economies on the continent, on the other hand, could apply stricter RoO, including single or double transformation, or high local content requirements. Table 1 further explores some options for RoO under the AfCFTA and how they may impact investment via three channels: domestic, regional and international.

Table 1 Qualitative impact assessment and illustrative examples

RoO	Domestic investment	Regional investment	International investment
Double transformation (tight)	Encourage investment to make use of preferences, especially if the local supplier industry is present and competitive (e.g. Egypt)		Encourage investment to make use of preferences, but not if not competitive
Single transformation (relaxed)	Encourage investment in assembly to make use of preferences (e.g. Ethiopia, Kenya)		
Phased out RoO	Investment in downstream industry in phase 1 and upstream in phase 2	Inflow of investment from countries with advanced industries into upstream industries in LDCs	High inflow of investment in Phase 1 in downstream industries – can crowd out investment in phase 2 due to lack of competitiveness
Special treatment for LDCs	Spur domestic investment in assembly or simple value-addition (downstream)	Can spur investment in case of regional-content requirement	

Source: Authors' compilation

4.5 Policies for wider impact

An UNCTAD report from 2019 attempted to grapple with the question of how the AfCFTA RoO can (a) increase intra-regional trade, and (b) increase value-addition and the building of regional value chains.⁶ AfCFTA policymakers need to address the fact that most African countries do not have the capacity to meet more stringent RoO and thus benefit from the AfCFTA preferential tariffs.⁷

6 See Chapter 3 of the UNCTAD Report (2019)

7 In this context, the more relevant policy questions are: (1) How can the AfCFTA assist its members in meeting stricter RoO that support transformative industrialisation? (2) How can countries increase their value-added production through regional sourcing of inputs? (3) What measures can African countries take to displace imported textiles with domestic production? (4) How can the African market incentivise foreign investors in textile and apparel production from eastern and western countries to establish operations in Africa to take advantage of the massive free trade market that the AfCFTA will create? (5) How can those countries that have a low level of development be allowed to import foreign inputs for domestic processing and exports into the African continent without simply transshipping manufactures from more competitive regions? (6) How can the AfCFTA extend its benefits in the short and medium term to its lesser development members as well?

There may be several ways to meet the twin policy objectives of building RVCs and increasing intra-regional trade, especially involving LDCs. Policy measures should be considered which increase the capacity of less developed countries to industrialise and participate meaningfully in RVCs and manufactured exports. However, careful consideration needs to be given to not undermining the existing producers of manufactured goods by lowering the threshold for imported inputs from third countries.

A range of measures could be considered, including:

1. Quotas could be imposed on exports from LDCs that require single transformation RoO. The quotas could be applied for a limited period until these countries transition to double-stage transformation.
2. Cumulation of RoO could be used as an instrument to assist countries at a lower level of industrialisation to invest in the production of components such as zips and buttons, and thus enable them to export intra-regionally.
3. Implementation of the AfCFTA must be complemented with a range of supply-side measures by countries at the national and regional levels. The AfCFTA could facilitate cooperation among regional institutions – for example, Africa’s development finance institutions – to provide supply-side support and development finance to firms at a national and regional level. The following sub-section makes some recommendations in this regard.

4.6 Complementary supply-side measures

Many analysts argue that RoO alone are not adequate for building RVCs and promoting transformative industrialisation in Africa. For example, the AfCFTA-stimulated growth of the textile and apparel sector into a dynamic competitive regional value chain will need to be complemented by a range of supply-side measures to build the productive capacity of African countries (Whitfield et al., 2021; Kaplinsky and Morris, 2019; Altenburg et al., 2020). For example:

1. Government industrial policy must support the capabilities of the local firms that are crucial for developing a local supply chain and an extensive and diversified textile base.
2. Industrial parks are needed along with fiscal, financial and infrastructural incentives to attract manufacturers and investors. This can be supplemented by targeted joint campaigns with global buyers to attract first-tier suppliers.
3. There is a need for regional initiatives to upgrade infrastructure and create common regulatory frameworks across the region. Establishing knowledge-intensive agencies (such as laboratories, standards testing facilities) with regional reach and scope would assist firms to enter and sustain their place in RVCs. Moreover, a regional strategy for a textile base is crucial for increasing the overall variety of fabric available at any given time, including capacities in dyeing and finishing. Neighbouring countries could develop specialised textile sectors around specific product categories and then source from each other in a free trade area.

4. There is a need for Africa to take control of and revitalise its consumer market by addressing the issue of second-hand garments that flood domestic markets and undermine local manufacturing. Africa accounts for nearly a third of global imports of second-hand clothing, which was estimated at US\$5 billion in 2019 (UNCTADStat, 2021). About 80 percent of Africa's population wear second-hand clothes, mainly imported from the US, Europe, India and Pakistan.
5. African countries can leapfrog development to take advantage of the opportunities presented by the next 'techno-economic paradigm' change within global capitalism. This paradigm shift is one towards renewable energy and the circular economy. Some of the largest retailers in the world, such as H&M and Inditex, have corporate strategies that promise to source 100 percent recycled or other sustainably sourced materials by 2030. This emerging trend is a major opportunity for African countries that they should prepare for.

5 Conclusion

This paper is intended to stimulate a more balanced debate on appropriate RoO for the AfCFTA in the textile and apparel sector. The paper has reviewed the mainstream literature on RTAs and RoO, pointing to inconsistencies that policymakers should be aware of. Some analysts support an open approach to regional integration in Africa, but this suits the interests of third-country suppliers more than the African countries seeking to industrialise. This paper, by contrast, argues for a ‘developmental regionalism’ approach to the AfCFTA RoO that supports a Made in Africa approach that will support and facilitate:

- a) the diversification of Africa’s economies towards higher-value production and the creation of RVCs
- b) prevention of transshipment of cheaper inputs and intermediate products from third countries
- c) the leveraging of the large regional market created by the AfCFTA to attract investment in textile and apparel production
- d) special attention to the specific concerns of LDCs that have poor manufacturing capacity
- e) the use of specific supply-side measures at a national and regional level to build productive capacity.

The analysis presented in this discussion paper calls for a balanced approach to the RoO in the negotiations on textile and apparel. Lax rules could allow countries from outside the African continent to gain an advantage over those within the AfCFTA, thus undermining Africa’s economic and industrial development. A ‘Made in Africa’ approach, by contrast, would create a virtuous circle of increased investment in RVCs and increased intra-regional trade of higher value-added manufactured products.

References

- AU – African Union** (2015) *Agenda 2063 – the Africa We Want* (https://au.int/sites/default/files/documents/36204-doc-agenda2063_popular_version_en.pdf).
- Altenburg, T. Chen, X., Wilfried Lütkenhorst, W., et al.** (2020) *Exporting out of China or out of Africa? Automation versus relocation in the global clothing industry*. Discussion Paper No.1. Bonn: German Development Institute.
- Balchin, N. and Calabrese, L.** (2019) *Comparative country study of the development of textile and garment sectors: lessons for Tanzania* (www.gatsby.org.uk/uploads/africa/reports/pdf/2019-ga-odi-report-textile-and-garment-case-studies.pdf).
- Bergsten, F.** (1997) *Open regionalism*. Working Paper 97-3. Washington DC: Institute for International Economics.
- BizVibe** (2017) *Kenya's textile and apparel industry sets to revive*. Bizvibe Blog, 1 February (<https://blog.bizvibe.com/blog/textiles-and-garments/kenyas-textile-apparel-industry-revive>).
- Che, G., Geiger, M. and Fu, M.** (2015) *Manufacturing FDI in sub-Saharan Africa: trends, determinants, and impacts*. Washington DC: World Bank (<https://openknowledge.worldbank.org/handle/10986/22352>).
- Cheru, F., Cramer, C. and Oqubay, A.,** (eds) (2019) *The Oxford handbook of the Ethiopian economy*. Oxford University Press.
- Cheu, V.** (2019) 'Africa becomes a 'new oasis' for textile industry investment'. LinkedIn webpage, 28 September (www.linkedin.com/pulse/africa-becomes-new-oasis-textile-industry-investment-homway-victor).
- Davies, R.** (2019) *The politics of trade in the era of hyperglobalisation: a southern African perspective*. Geneva: South Centre.
- Estevadeordal A., Suominen K., Harris J., et al.** (2011) *Gatekeepers of global commerce: rules of origin and international economic integration*. Washington DC: Inter-American Development Bank (<https://publications.iadb.org/en/gatekeepers-global-commerce-rules-origin-and-international-economic-integration>).
- Gourdon J., Kniahin D., Melo J, de. and Mimouni M.** (2021a) 'Rules of Origin across African Regional Trading Agreements: a landscape with measures to address challenges at harmonization' *Journal of African Trade* 8(1) (<https://doi.org/10.2991/jat.k.201224.001>).
- Gourdon J., Kniahin D., Melo J, de. and Mimouni M.** (2021b) *Mapping rules of origin across regional trade agreements with ITC's rules of origin facilitator*. ITC Working Paper. International Trade Center.
- HKTDC Research** (2020) 'Kenya: a land of manufacturing and investment opportunities (1)' *Hong Kong Means Business*, 24 February (<https://secure.hkmb.hktdc.com/en/1XoAJZPE/hktdc-research/Kenya-A-Land-of-Manufacturing-and-Investment-Opportunities-1>).
- Hoekman, B. and Inama, S.** (2018) 'Harmonising of rules of origin: an agenda for plurilateral cooperation?' *East Asian Economic Review* 22(1): 3–28 (<https://doi.org/10.11644/KIEP.EAER.2018.22.1.336>).

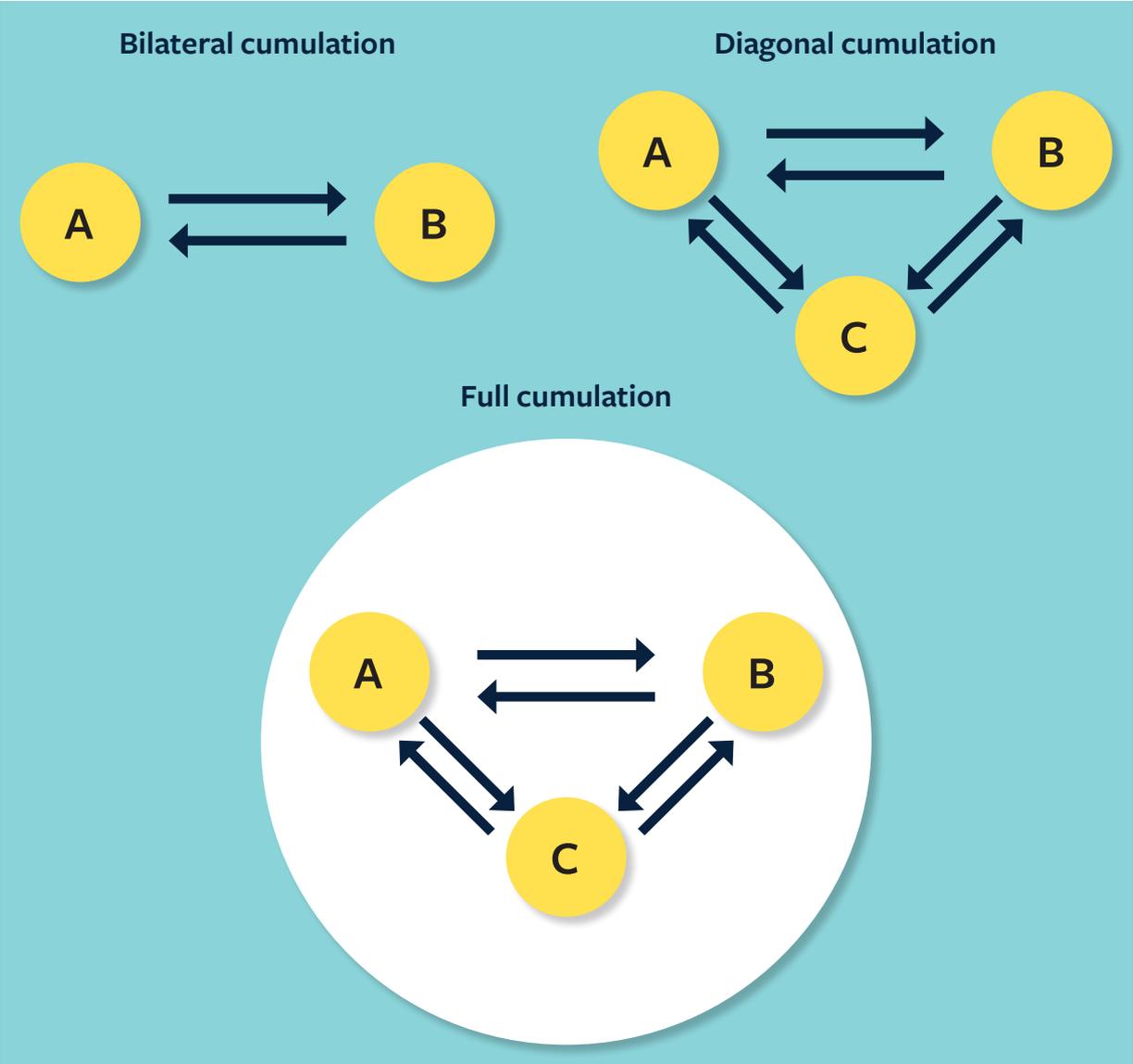
- IADB – Inter-American Development Bank** (2006) *How do rules of origin affect investment flows? Some hypotheses and the case of Mexico*. INTAL-ITD Working Paper 22 (<https://publications.iadb.org/publications/english/document/How-do-Rules-of-Origin-Affect-Investment-Flows-Some-Hypotheses-and-the-Case-of-Mexico.pdf>).
- Ismail, F.** (2021) *The AfCFTA and developmental regionalism. A handbook*. Pretoria: TIPS (www.tips.org.za/images/AfCFTA_and_Developmental_Regionalism_Handbook_2021.pdf).
- Ismail, F.** (2022) *A developmental regionalism approach to the AfCFTA and rules of origin for the cotton, textiles and apparel regional value chain*. Discussion paper. Pretoria: TIPS.
- Ismail, F. and Grunder, J.** (2020) 'The future of SA-UK trade in a post-Brexit world' *South African Journal of International Affairs* 27(2): 131–146.
- Kaplinsky, R. and Morris, M.** (2019) 'Trade and industrialisation in Africa: SMEs, manufacturing and cluster dynamics' *Journal of African Trade* 6 (1–2): 47–59 (<https://doi.org/10.2991/jat.k.190812.001>).
- Melo, J. de. Portugal-Perez, A.** (2014) 'Preferential market access design: evidence and lessons from African Apparel Exports to the United States and the European Union'. *World Bank Economic Review* 28(1): 74–98 (<https://doi.org/10.1093/wber/lhto12>).
- Mold, A. and Chekwoti, C.** (2021) 'The textile and clothing industries within the context of the African Continental Free Trade Area, UNECA and TRAPCA'.
- Mordor Intelligence** (2020) 'Africa textile industry - growth, trends, and forecast (2019 - 2024)'. Mordor Intelligence.
- Oqubay, A.** (2015) *Made in Africa: industrial policy in Ethiopia*. Oxford: Oxford University Press.
- Oxford Business Group** (2021) 'Which private players are investing in West Africa's textiles industry?' Oxford Business Group, webpage (<https://oxfordbusinessgroup.com/news/which-private-players-are-investing-west-africa-textiles-industry>).
- Tsowou, K. and Davis, J.** (2021) 'Reaping the AfCFTA potential through well-functioning rules of origin' *Journal of African Trade* 8(2): 88–102 (<https://doi.org/10.2991/jat.k.210428.001>).
- UNCTAD** (2012) *World Investment Report*. Geneva: United Nations Conference on Trade and Development.
- UNCTAD** (2013) *Economic Development Report, 2013*. Geneva: United Nations Conference on Trade and Development.
- UNCTAD** (2019) *Made in Africa – rules of origin for enhanced intra-African trade. Economic Development in Africa Report 2019*. New York and Geneva: United Nations Conference on Trade and Development (<https://unctad.org/publication/economic-development-africa-report-2019>).
- UNCTADStat** (2021) Data centre, webpage (<https://unctadstat.unctad.org/EN>).
- UNECA, AU and AfDB** (2017) *Bringing the African Free Trade Area about – assessing regional Integration in Africa VIII*. Addis Ababa: United Nations Economic Commission for Africa, African Union, and African Development Bank.
- Vallejo, B. and Mekonnen, T.** (2021) *Foreign Direct Investment (FDI) and learning in Ethiopia's textile and garment sector*. Open AIR working paper 25 (<https://openair.africa/wp-content/uploads/2021/02/WP-25-FDI-and-Learning-in-Ethiopia's-Textile-and-Garment-Sector.pdf>).
- Whitfield, L. and Staritz, C.** (2020) 'Local supplier firms in Madagascar's apparel export industry: upgrading paths, transnational social relations and regional production networks' *Economy and Space* 53(4): 763–784 (<https://doi.org/10.1177/0308518X20961105>).

Whitfield, L., Marslev, K. and Staritz, C. (2021) *Can apparel export industries catalyse industrialisation? Combining GVC participation and localisation*. SARChI Industrial Development Working Paper Series PB 2021-01. University of Johannesburg (www.uj.ac.za/wp-content/uploads/2021/10/sarchi-wp-2021-01-whitfield-et-al-march2021-updated.pdf).

World Bank (2015) *Kenya apparel and textile industry: diagnosis, strategy and action plan*. World Bank and Republic of Kenya, Ministry of Industrialization and Enterprise Development (<https://documents1.worldbank.org/curated/en/441761468000939834/pdf/99480-REVISED-Kenya-Apparel-and-Textile-Industry.pdf>).

Appendix 1 Additional tables

Figure 3 Bilateral, diagonal, and full cumulation



Source: UNCTAD (2019)

Table 2 Key features of the rules of origin in selected RECs and free trade areas in Africa

	COMESA	EAC	ECCAS	ECOWAS	SADC	TFTA	AfCFTA
Main origin criteria							
Wholly obtained	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ad valorem percentage	General: Yes Three ad valorem percentage calculations and change of tariff heading (not an across the board; criteria limited to specific headings in Appendix V of COMESA protocol on RoOs)	General: No	General: Yes Uniform percentage across all products (minimum 30% of regional value content: minimum value contingent on calculation criterion used)	General: Yes Uniform percentage across all products (minimum 30% of regional value content, using value added by subfraction)	General: No	General: No	General: No Percentage to be determined by products / sector
Change of tariff classification	Applicable	Applicable	Not applicable	Not applicable	Applicable	Applicable	Applicable
Regime-wide rules							
Cumulation	Yes	Yes	Yes	No explicit text in legal terms	Yes	Yes	Yes
Tolerance	No	Yes	No	No	Yes	Yes	Yes (to be agreed)
Absorption	Yes	Yes	Yes	No	yes	Yes	Yes (to be agreed)
Certificate of origin	COMESA certificate of origin	EAC certificate of origin	ECCAS certificate of origin	ECOWAS certificate of origin (agricultural products, livestock products, and handmade articles exempt from this requirement)	SADC certificate of origin	Tripartite Free Trade Agreement certificate of origin	AfCFTA certificate of origin
Certifying authorities	Yes, specimen impressions of stamps and specimen signatures of officials required	Yes, specimen impressions of stamps and specimen signatures of officials required	Yes, specimen impressions of stamps required	Yes, signature must be provided with name and function	Yes, specimen impressions of stamps and specimen signatures of officials required	Yes, specimen impressions of stamps and specimen signatures of officials required	Yes, specimen impressions of stamps and specimen signatures of officials required
Notification requirement to certifying authorities	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Exporter declaration (self-certification)	No	No	No	No	No	No	No
Approved exporter	No	Yes	No	No	No	Yes	Yes
Exporter declaration for small consignments	No	Yes, maximum \$500 for person-to person shipment or maximum \$1200 as traveller luggage	No	No	No	Yes, maximum \$500 for person-to-person shipment or maximum \$1200 as traveller luggage	Yes, maximum \$500 for person-to-person shipment or maximum \$1200 as traveller luggage
Direct shipping requirement	Yes	Yes	No	No explicit terms in legal text but definition of consignment is provided	Yes	Yes	Yes
Document evidence of direct shipping requirement	No clear provision in legal text	No clear provisions in legal text	No clear provisions in legal text	No explicit terms in legal text but definition of consignment is provided	Single transport document or document certified by customs authorities of third country	Single transport document or document certified by customs authorities of third country (if unavailable, any substantiating evidence may be accepted)	Single transport document or document certified by customs authorities of third country

Source: UNCTAD (2019) and Tsowou and Davis (2021)

Table 3 Yarn imports of top Sub-Saharan (SSA) apparel exporters

Yarn			
Country	Import value (USD)	% SSA	Top import partners, SSA
South Africa	239,217,120	10.5%	Lesotho (3.1%) Mauritius (3.0%) Zimbabwe (2.2%)
Mauritius	75,197,654	2.1%	South Africa (2.1%)
Madagascar	46,198,949	9.4%	Mauritius (9.1%)
Kenya	107,383,612	3.9%	South Africa (2.0%) Uganda (0.5%) Tanzania (1.3%)
Lesotho	12,966,905	21.2%	South Africa (21.2%)
Eswatini	44,019,552	80.6%	Lesotho (38.9%) Mauritius (32.0%) South Africa (9.8%)
Ethiopia	96,609,434	0.0%	

Source: Whitfield et al. (2021)

Table 4 Fabric imports of top SSA apparel exporters

Fabric			
Country	Import value (USD)	% SSA	Top import partner, SSA
South Africa	942,615,403	4.9%	Eswatini (1.90%) Mauritius (1.50%) Lesotho (0.7%)
Mauritius	144,669,512	3.3%	South Africa (1.5%) Lesotho (1.0) Madagascar (0.6%)
Madagascar	277,995,775	15.4%	Mauritius (14.6%) Lesotho (0.40%) South Africa (0.3%)
Kenya	343,732,600	3.3%	Tanzania (1.9%) Ethiopia (0.7%) South Africa (0.6%)
Lesotho	230,241,616	17.9%	South Africa (17.8%)
Eswatini	184,296,139	35.6%	South Africa (35.6%)
Ethiopia	241,530,966	0.4%	Lesotho (0.1%)

Source: Whitfield et al., 2021

Appendix 2 Data briefs

Brief 1: Exporters of Intermediate goods

Estimates show that exports of intermediate products within the industry (yarn, fibres, fabrics, wadding) have been quite low in value due to lack of value-addition and export competitiveness. South Africa led the sample with exports valued at US\$206 million (40 percent of such exports in 2019), followed by Morocco (US\$96 million, 18 percent) and Tanzania (US\$77 million, 15 percent). The estimates for export of finished goods are more positive. The top exporters for apparel (knitted, crocheted, non-knitted, non-crocheted) were Morocco (US\$3.2 billion), Mauritius (US\$544 million), Lesotho (US\$448 million), South Africa (US\$387 million) and Kenya (US\$341 million) in 2019. For textiles, made-ups and carpet exports, Morocco was again the leader in exports in the selected group of countries (US\$302 million), followed by South Africa (US\$178 million).

Brief 2: Intra-Africa trade

On the continent, about 17.5 percent of total trade in the apparel and textiles industry was destined for other African countries (termed as intra-Africa trade). However, intra-Africa trade shares were heterogenous across countries (Figure 4 in Appendix 1). For instance, it was the highest for Botswana (89 percent), Eswatini (80 percent), Namibia (76 percent) and Zimbabwe (66 percent), all of which primarily traded with South Africa on the continent. Mauritius, Eswatini, and Tanzania displayed a trade surplus of US\$170 million, US\$152 million and US\$86 million, respectively; whereas, Namibia, Algeria, and South Africa displayed a trade deficit amounting to US\$140 million, US\$113 million, and US\$103 million, respectively.

Appendix 3 Glossary

Ad valorem percentage: Regardless of a change in the classification of a good, the good is considered substantially transformed when the value added of that good increases up to a specified level, expressed in terms of an ad valorem percentage. This value-added criterion can be expressed in two ways, namely, as a maximum allowance for non-originating materials or as a minimum requirement of domestic content.

Cumulation: Under cumulation rules, contracting parties to a preferential trade agreement or beneficiary countries under the Generalised System of Preferences schemes may source non-originating raw materials or components from specified countries and count them as originating. There are three types of cumulation: (a) bilateral cumulation allows two partner countries to treat materials originating in one of the partner countries as materials of the other partner country; (b) diagonal cumulation permits countries within a regional grouping to treat materials originating in a specific third country as their own materials; and (c) full cumulation, which concerns processing operations carried out by any of the participating preferential trade agreement countries that may be considered for cumulation purposes.

Change in tariff classification: Origin can be conferred after a change in tariff heading. This implies that the final good should fall under a different tariff heading than the imported goods used in the production of the product, according to the Harmonised System of nomenclature for goods.

Developmental regionalism: An approach to regional integration that is based on a heterodox economic view of the world and an idealism that incorporates values or solidarity as an essential ingredient to achieve this.

Triple, double and single transformation requirements: In rules of origin, the extent to which non-originating inputs can be used for the production of preference-eligible apparel products is typically referred to as double transformation or single transformation requirements. For origin determination, double transformation requires that two stages of production take place in a free trade area region (yarn → fabric → apparel). Under single transformation requirements, only one production step needs to take place within a region for the apparel product to acquire originating status (i.e. fabric → apparel). A triple transformation requires that three stages of production take place in a free trade area region (fibre → yarn → fabric → apparel).

Free trade area: A free trade area is a grouping of countries within which tariffs and non-tariff trade barriers between the members are generally abolished but with no common trade policy toward non-members (i.e. the North American Free Trade Agreement and the European Free Trade Association).

Generalised System of Preferences: The Generalised System of Preferences is a preferential tariff system, in favour of developing countries, which provides for a formal scheme of exemption from the more general rules of the World Trade Organization (WTO).

Harmonised commodity description and coding system: The Harmonised Commodity Description and Coding System, first introduced in 1988, is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes. At the international level, the Harmonised System for classifying goods is a six-digit code system. Descriptions of articles or products appear as headings and subheadings, arranged in chapters that are grouped into sections. Also known as the Harmonised System.

Most-favoured nation: A most-favoured nation clause requires a country to provide any concessions, privileges or immunities granted in a trade agreement to one nation to all other WTO member countries. Although the term appears to imply favouritism towards another nation, it denotes the equal treatment of all countries.

Non-tariff barrier: A non-tariff barrier increases the cost of trade. It expresses a negative impact of an unnecessary and, probably, protectionist regulation or customs or administrative procedure or processes. These include lack of infrastructure or lack of transparency in trade regulation, arbitrary application of trade regulations, non-recognition of certificates, etc. It may be subjective, and there is no exhaustive list.

Non-tariff measure: A non-tariff measure refers to regulations officially issued by a country that may affect trade, even in cases where the main objective is not to regulate trade, but rather, to address safety or quality, for example. This term should not be used interchangeably with non-tariff barrier.

Open regionalism: A third option between regional integration and multilateralism in which members of the regional integration project would strive to simultaneously open their markets to each other and also to the rest of the world.

Preferential trade area: A preferential trade area is a trading bloc that gives preferential access to certain products from the participating countries. This is done by reducing tariffs but not by abolishing them completely. A preferential trade area can be established through a trade pact.

Regional integration: Regional integration is a process in which neighbouring states enter into an agreement to upgrade cooperation through common rules. Intra-regional trade refers to trade which focuses on economic exchange, primarily between countries of the same region or economic zone.

Rules of origin: Rules of origin cover laws, regulations and administrative determinations of general application applied by the governments of importing countries to determine the country of origin of goods. Rules of origin are important in implementing trade policy instruments, such as anti-dumping and countervailing duties, origin marking and safeguard measures.

Tolerance rule: The tolerance rule permits a specific share (often between 10 percent and 15 percent of the value or volume of the final product to be non-originating without the final product losing its originating status. In some agreements, the components to which the rule applies are specifically identified. Alternatively, there may be a list of components that may not be included in the allowance or a list of products (e.g. chapters, under the Harmonised System) to which the tolerance rule does not apply. Also known as the de minimis rule.

Trade creation: Trade creation is the increased trade that occurs between member countries of trading blocs following the formation or expansion of the trading bloc. This comes about as the removal of trade barriers allows greater specialisation according to comparative advantage. This means that prices can fall, and trade can thus expand.

Trade deflection: Trade deflection is the movement of goods or components of goods from outside a trading arrangement to a country within such an arrangement for the seller to benefit from trading preferences.

Transshipment: The process whereby one country imports goods/containers from another and then moves these goods/containers to a third country without adding any value to the goods.

Wholly obtained criterion: The wholly obtained or wholly produced criterion, relates to goods that are entirely the product of one country and do not have inputs from non-contracting parties in the production process. It also refers to natural products and goods made from natural products that are entirely obtained in one country. Goods wholly obtained in one country are considered as originating in that country. The concept is still relevant for some agricultural and mining products.

Source: UNCTAD (2019) and authors