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## Regionalism, end markets and ownership matter: Shifting dynamics in the apparel export industry in Sub Saharan Africa

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# Regionalism, end markets and ownership matter: Shifting dynamics in the apparel export industry in Sub Saharan Africa

Vienna, March 2014

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## IMPRINT

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## List of Abbreviations

AGOA	African Growth and Opportunity Act
EAC	East African Community
EBA	Everything But Arms Initiative
EPAs	Economic Partnership Agreements
EPZs	export processing zones
EU	European Union
FDI	foreign direct investment
GVC	global value chain
MFA	Multi-Fibre Arrangement
PTAs	preferential trade agreements
ROO	rules of origin
SACU	Southern African Customs Union
SADC	Southern African Development Cooperation
SARS	South African Revenue Service
SEZs	special economic zones
SSA	Sub Saharan African

## Abstract

This paper shows the importance of ownership, end markets and regionalism within the global value chain (GVC) conceptual framework. This is done through unpacking the development trajectories of the major Sub Saharan African (SSA) apparel export industries (Mauritius, Madagascar, Kenya, Lesotho, Swaziland) against the backdrop of global and regional trade regime changes and the manner in which different supplier firms react to these opportunities and/or constraints. These trajectories demonstrate the emergence of a new regionalism centred around investment and differentiated end markets. Ownership characteristics of supplier firms shape the ability to shift between different end markets and respond to lead firm requirements; and the level of their local and regional embeddedness impacts on different forms of upgrading. More locally and regionally embedded firms in these SSA countries have been able to shift with uneven success to new, and in particular regional, markets. In contrast, Asian-owned transnational producers remain focused on the US market with limited market opportunities and upgrading potential. Different types of ownership and embeddedness dynamics are therefore important to explain the co-evolution of highly differentiated value chain dynamics creating a variety of apparel industrialization trajectories in the apparel export industry in SSA.

**Keywords:** global value chains, apparel, upgrading, ownership, Sub Saharan Africa

## 1. Introduction

Since the turn of the millennium, several Sub Saharan African (SSA) countries have substantially developed and/or expanded export-oriented apparel industries. This was driven by the favourable external regulatory frameworks of the Multi-Fibre Arrangement (MFA), US and EU preferential trade agreements (PTAs), and national industrial policies supporting exporting and foreign direct investment (FDI). However, after the MFA phase-out (end 2004), SSA apparel exports declined (Kaplinsky/Morris 2006), and this was accelerated by the 2008 global economic crisis (Staritz 2011). Concomitantly, the export structure has changed substantially with regional end markets increasing in importance.

An aggregated analysis of SSA apparel exports masks this end market shift, the political economy dynamics driving these processes, and the variety of firm types inserted in different value chain channels serving diverse end markets. Firm ownership variations and differential value chain insertion influence end markets, governance structures and firm set-up. Ownership dynamics manifest themselves in significant disparities in levels of local and regional embeddedness, with important implications for the sustainability of apparel exporting operations and economic upgrading trajectories (Morris et al. 2011; Staritz/Frederick 2012; Morris/Staritz 2014).

The central argument of this paper highlights the importance of ownership, end markets and regionalism within the global value chain (GVC) conceptual framework through unpacking the development trajectories of the major SSA apparel export industries (Mauritius, Madagascar, Kenya, Lesotho, Swaziland). It analyses dynamics between types of apparel firms based on their ownership profile, end markets, governance structures and firm set-up, and the implications of these for embeddedness and economic upgrading. These produce the co-evolution of highly differentiated value chain dynamics creating a variety of apparel industrialization paths. This occurs against the backdrop of global and regional trade regime changes and the manner in which different supplier firms react to these opportunities and/or constraints.

The rise of SSA apparel export countries is generally perceived as successful cases of starting an industrial development process through PTAs and FDI. This paper shows, however, that understanding the dynamics of distinct value chain channels is critical in identifying the opportunities and challenges for broader industrial development and related policy measures. A policy approach focused exclusively on unconditional export and FDI incentives is unlikely to secure upgrading and industrial development.

The research in this paper is based on a variety of sources – multiple fieldwork activities conducted by the authors between 2009 and 2012 that included interviews with representatives of different types of apparel supplier firms and relevant institutional actors in the designated countries, analysis of trade and national industry data, and use of data from a number of published studies by other researchers on the SSA apparel industry (Abdoolla 2013; Ancharaz/Kaseeah 2012; Kamau 2009; Gatimu et al. 2012).

The paper comprises the following. We first discuss PTAs and shifting end markets in the development of the SSA export-oriented apparel industry. Then we analyse the importance of ownership and embeddedness. The third section demonstrates how firm ownership and GVC dynamics impact on upgrading and sustainability. This is followed by a short conclusion.

## **2. Export Apparel Sector Development in SSA**

The development of SSA export-oriented apparel industries since 2000 was driven by three regulatory regimes: i) MFA quotas on large Asian producer countries leading to the global dispersion of apparel production; ii) duty-free PTAs to the US (African Growth and Opportunity Act (AGOA)), the EU (Everything But Arms (EBA) Initiative and Economic Partnership Agreements (EPAs), and South Africa through the Southern African Customs Union (SACU) and the Southern African Development Cooperation (SADC); and iii) national policies supporting export-oriented firms, including FDI incentives, and special economic zones (SEZs).

SSA apparel exports roughly doubled over the 1990s reaching around \$2.1 billion in 2000 with around 50 % of the exports going to the EU and 38 % to the US. With the advent of AGOA in 2000, SSA apparel exports increased to around \$3.2 billion in 2004 and dramatically changed its composition (Table 1). Exports to the EU stagnated while those to the US more than doubled, peaking at \$1.9 billion in 2004. The share of SSA apparel exports in global apparel exports increased from 0.7 % in 1995 to 1.3 % in 2004, whilst in the US SSA's import share increased from 1 % to 2.6 %. The growth of apparel exports in some countries was spectacular. Between 2000 and 2004, Kenya's apparel exports grew six-fold, Swaziland's five-fold, and Lesotho's three-fold. Excluding South Africa whose export data needs to be treated with caution<sup>1</sup>, Lesotho, Swaziland, Madagascar, Kenya and Mauritius, became the largest SSA exporters of apparel accounting together for around 80 % of SSA's total apparel exports in 2004 (Table 2).

---

<sup>1</sup> South African exports to other SSA countries reported from 2007 do not reflect real exports of local apparel, but rather the trans-shipment of imports largely from China into South Africa and then re-exported out to the stores of South African retailers in other parts of Africa.

**Table 1: SSA top 10 apparel export markets by year**

	Value (\$US Mil)							Share of Total ( %)						
	'00	'04	'05	'07	'09	'10	'11	'00	'04	'05	'07	'09	'10	'11
<b>World*</b>	<b>2,092</b>	<b>3,238</b>	<b>2,800</b>	<b>3,011</b>	<b>2,525</b>	<b>2,309</b>	<b>2,675</b>							
US	791	1,865	1,541	1,362	965	829	940	37.8	57.6	55.0	45.2	38.2	35.9	35.1
EU-15	1,038	1,013	918	1,161	943	802	908	49.6	31.3	32.8	38.6	37.3	34.7	34.0
South Africa*	24	27	42	76	129	202	290	1.2	0.8	1.5	2.5	5.1	8.7	10.9
Namibia	49	76	81	121	175	163	175	2.3	2.3	2.9	4.0	6.9	7.0	6.5
Botswana	44	72	62	74	90	97	107	2.1	2.2	2.2	2.4	3.6	4.2	4.0
Canada	18	29	28	26	26	29	25	0.9	0.9	1.0	0.9	1.0	1.3	0.9
Zambia	7	6	9	10	12	15	24	0.3	0.2	0.3	0.3	0.5	0.6	0.9
Australia	1	3	2	3	6	9	13	0.1	0.1	0.1	0.1	0.2	0.4	0.5
Russia	1	0	0	4	8	10	13	0.1	0.0	0.0	0.1	0.3	0.4	0.5
Zimbabwe	-	3	1	6	5	8	13	0.0	0.1	0.1	0.2	0.2	0.3	0.5

Source: UN COMTRADE; apparel represents HS92 61+62; exports represent partners' imports.

\* From 2005 onwards UN COMTRADE data replaced with SARS data for South Africa; Conversion from Rand to US Dollar based on UNCTAD annual exchange rate.

**Table 2: Top 10 SSA apparel exporters by year**

	Value (\$US Mil)							Share of Total ( %)						
	'00	'04	'05	'07	'09	'10	'11	'00	'04	'05	'07	'09	'10	'11
<b>Total</b>	<b>2,092</b>	<b>3,238</b>	<b>2,800</b>	<b>3,011</b>	<b>2,525</b>	<b>2,309</b>	<b>2,675</b>							
Mauritius	962	959	807	965	817	770	844	46.0	29.6	28.8	32.0	32.4	33.4	31.5
Madagascar	369	562	539	697	578	378	463	17.6	17.3	19.3	23.2	22.9	16.4	17.3
Lesotho*	153	494	423	415	331	364	405	7.3	15.3	15.1	13.8	13.1	15.8	15.2
South Africa**	396	478	337	313	371	334	369	18.9	14.8	12.0	10.4	14.7	14.5	13.8
Kenya	50	307	297	270	213	222	288	2.4	9.5	10.6	9.0	8.4	9.6	10.7
Swaziland*	37	191	172	149	116	158	161	1.8	5.9	6.1	5.0	4.6	6.8	6.0
Ethiopia	1	5	5	6	9	13	45	0.0	0.1	0.2	0.2	0.4	0.5	1.7
Botswana	26	35	38	43	20	13	17	1.2	1.1	1.3	1.4	0.8	0.6	0.6
Malawi	27	48	48	37	24	14	16	1.3	1.5	1.7	1.2	1.0	0.6	0.6
Tanzania	3	8	7	8	6	9	13	0.1	0.3	0.3	0.3	0.2	0.4	0.5

Source: UN COMTRADE; apparel represents HS92 61+62; exports represent partners' imports.

\* From 2005 onwards UN COMTRADE data replaced with SARS data for South Africa; Conversion from Rand to US Dollar based on UNCTAD annual exchange rate.

\*\* These are not real exports of locally made apparel but rather from 2007 onwards trans-shipment of imports largely from China.



By 2004 Kenya, Lesotho and Swaziland exported almost exclusively to the US (90 %, 92 % and 94 % of total apparel exports, respectively) (Table 3). Madagascar's major export market shifted from the EU to the US, which trebled and accounted for 57 % of total apparel exports (Table 3). The EU remained the major end market for Mauritius (66 % of total exports) (Table 4). Mauritius and Madagascar still comprised 88 % of SSA exports to the EU-15 in 2004 (Table 4).

**Table 3: Top 10 SSA apparel exporters to the US by year**

Exporter	Value (\$US Mil)						Share of SSA Total ( % )					
	'00	'04	'07	'10	'11	'12	'00	'04	'07	'10	'11	'12
<b>SSA Total</b>	<b>748</b>	<b>1,757</b>	<b>1,293</b>	<b>790</b>	<b>904</b>	<b>866</b>						
Lesotho	140	456	384	281	315	301	18.7	25.9	29.7	35.5	34.9	34.8
Kenya	44	277	248	202	261	254	5.9	15.8	19.2	25.5	28.8	29.4
Mauritius	245	226	115	120	157	163	32.7	12.9	8.9	15.1	17.3	18.8
Swaziland	32	179	135	93	77	60	4.3	10.2	10.5	11.8	8.5	6.9
Madagascar	110	323	290	55	40	43	14.7	18.4	22.4	6.9	4.4	4.9
Botswana	8	20	31	12	15	11	1.1	1.2	2.4	1.5	1.7	1.2
Ethiopia	-	-	-	7	10	10	-	-	-	0.8	1.1	1.2
Tanzania	-	-	-	2	5	8	-	-	-	0.2	0.6	0.9
South Africa	142	141	24	6	7	6	18.9	8.0	1.8	0.8	0.7	0.7
Malawi	7	27	20	10	13	6	1.0	1.5	1.5	1.3	1.5	0.7
<b>Top 10</b>	<b>746</b>	<b>1,735</b>	<b>1,283</b>	<b>788</b>	<b>900</b>	<b>861</b>	<b>99.8</b>	<b>98.8</b>	<b>99.2</b>	<b>99.6</b>	<b>99.5</b>	<b>99.4</b>

Source: USITC; General Customs Value; Apparel represents HS 61+62.

**Table 4: Top 5 SSA apparel exporters to the EU-15 by year**

	Value (\$US Mil)							Share of SSA Total ( % )						
	'00	'02	'04	'07	'10	'11	'12	'00	'02	'04	'07	'10	'11	'12
<b>SSA Total</b>	<b>993</b>	<b>809</b>	<b>947</b>	<b>1054</b>	<b>711</b>	<b>798</b>	<b>725</b>							
Mauritius	626	577	637	654	425	416	347	63.0	71.2	67.2	62.0	59.8	52.1	47.8
Madagascar	240	131	196	337	252	321	321	24.2	16.1	20.7	31.9	35.4	40.3	44.3
Ethiopia	-	-	-	-	5	28	31	-	-	-	-	0.7	3.5	4.2
South Africa	77	61	71	26	13	13	12	7.8	7.6	7.4	2.5	1.9	1.6	1.6
Cape Verde	-	-	-	7	5	6	3	-	-	-	0.6	0.7	0.7	0.4
<b>Top 5 Total</b>	<b>975</b>	<b>792</b>	<b>926</b>	<b>1033</b>	<b>701</b>	<b>784</b>	<b>722</b>	<b>98.1</b>	<b>97.9</b>	<b>97.8</b>	<b>98.1</b>	<b>98.5</b>	<b>98.2</b>	<b>98.4</b>

Source: Eurostat; Apparel represents HS 61+62; Conversion from Euro to US Dollar based on UNCTAD annual exchange rate.

After the MFA phase-out, the apparel industry declined quite drastically in terms of production, exports, employment and number of firms in all major SSA apparel export countries (Kaplinsky/Morris 2006). The global economic crisis accelerated these developments through a downturn in global demand (Staritz 2011). The total value of SSA apparel exports declined by 22 % from 2004 to 2009 – by 39 %, 33 % and 31 % in Swaziland, Lesotho and Kenya, respectively, but increased again in 2010/11 (Table 2). For Lesotho and Swaziland, this increase is largely attributed to a shift in exporting to South Africa. Kenyan exports, however, continue to be US concentrated – 91 % in 2011. Madagascar's apparel exports remained relatively constant post MFA<sup>2</sup> as exports shifted from the US to the EU. The loss of AGOA in 2009<sup>3</sup> led to a further reduction of US exports. While exports to the US declined by 87 % between 2004 and 2012, exports to the EU increased by 64 % (Tables 3, 4). Total apparel exports from Mauritius declined by 12 % from 2004 to 2011, as exports to the US and the EU declined by 28 % and 46 %, respectively, between 2004 and 2012 (with the latter related to the Euro zone crisis). The new regional market in South Africa made up for a part of these losses.

All in all, the end market structure has changed substantially in all main SSA apparel exporter countries. First, US exports have strongly declined since 2004, except for Kenya where exports recovered in 2011. Second, as regards the EU market, Mauritius and Madagascar have increased exports post-MFA, while the other three countries still do not export there. Third, and most importantly, regional end markets have increased in importance. South Africa has become a major alternative regional market for SSA apparel producers, with exports jumping eleven-fold between 2004 and 2011 (Table 5). For Lesotho, Swaziland, Madagascar and Mauritius, the South African market has become a major destination. Apparel exports from SSA producers to South Africa by 2011 were more than one-third those destined for the US as well as the EU market in 2011 (Table 5). Kenya does not export to South Africa. However, there is evidence of relatively small, but rising exports to the East African Community (EAC) common market (Burundi, Kenya, Rwanda, Tanzania and Uganda) established in 2010.<sup>4</sup>

China still strongly dominates South African apparel imports, accounting for 63 % in 2011, but regional countries increased their share from 5 % in 2004 to 19 % in 2011 (Table 5). Apparel exports from Mauritius to South Africa jumped dramatically and its share increased from 0.7 % in 2004 to 6.7 % in 2011, accounting for 20 % of Mauritius' total apparel exports. Madagascar accounted for 2.6 % of South African apparel imports in 2011 accounting for 9 % of its total apparel exports. The growth of exports to South Africa from Lesotho and Swaziland has been remarkable.<sup>5</sup> Between 2006 and 2012, apparel exports to South Africa from Lesotho increased thirty six-fold in Rand terms and from Swaziland eighty nine-fold (Table 6). They account for 15 % and 49 % of total apparel exports in Lesotho and Swaziland, respectively. In Swaziland's case, apparel exports to South Africa have now outstripped their exports to the US by a considerable margin. The growth of regional apparel exports to South Africa is based on SACU and SADC preferential market access.<sup>6</sup>

<sup>2</sup> Madagascar's apparel exports declined already in 2002 due to the political crisis.

<sup>3</sup> The US suspended Madagascar's AGOA status in 2009 because of a coup in January 2009.

<sup>4</sup> The importance of regional apparel exports has increased in Kenya, emanating from firms traditionally focused on the domestic market and not from export processing zone (EPZ) firms exporting to the US. In 2011, 95 % of exports still went to the US. However, the share of regional end markets is likely to be under-represented in official data. Interviews with 13 of the formal, Indian-diaspora- or locally owned, firms indicated that they export around 38 % of production within Africa, and 76 % of that to the EAC market (Staritz/Frederick 2012).

<sup>5</sup> This is not shown in UN COMTRADE data due to under-reporting of intra-SACU trade. Hence, we use data on South African apparel imports from the SACU region from the South African Revenue Service (SARS).

<sup>6</sup> The South African government's misplaced quota agreement with China in 2007/08 contributed to this import diversion (Morris/Reed 2009; Reed 2012).

**Table 5: Top 10 apparel exporters to South Africa by year**

	Value (US\$ Mil)							Share of Total (%)						
	'00	'04	'05	'07	'09	'10	'11	'00	'04	'05	'07	'09	'10	'11
<b>World*</b>	<b>192</b>	<b>564</b>	<b>755</b>	<b>903</b>	<b>1,011</b>	<b>1,353</b>	<b>1,534</b>							
China	95	419	558	554	670	920	961	49.6	74.4	73.9	61.4	66.3	68.0	62.6
Mauritius	1	4	9	36	50	69	103	0.6	0.7	1.1	4.0	4.9	5.1	6.7
Swaziland*	-	-	2	6	16	59	79	0.0	0.0	0.3	0.7	1.6	4.4	5.1
India	20	30	52	51	51	60	73	10.5	5.3	6.9	5.6	5.1	4.5	4.8
Lesotho*	-	-	1	1	28	46	60	0.0	0.0	0.1	0.1	2.8	3.4	3.9
Bangladesh	0	2	4	20	41	40	58	0.1	0.4	0.5	2.2	4.0	2.9	3.8
Madagascar	0	0	0	3	13	18	40	0.0	0.0	0.0	0.4	1.3	1.3	2.6
EU-15	16	21	21	25	22	25	29	8.5	3.7	2.8	2.8	2.1	1.9	1.9
Indonesia	4	4	6	23	14	15	19	2.3	0.7	0.8	2.5	1.4	1.1	1.2
Viet Nam	1	1	2	16	13	14	16	0.5	0.1	0.2	1.7	1.3	1.0	1.1
<b>SSA Total*</b>	<b>24</b>	<b>27</b>	<b>42</b>	<b>76</b>	<b>129</b>	<b>202</b>	<b>290</b>	<b>12.6</b>	<b>4.9</b>	<b>5.6</b>	<b>8.4</b>	<b>12.8</b>	<b>14.9</b>	<b>18.9</b>

Source: UN COMTRADE; apparel represented by HS92 61+62; exports represented South Africa's imports from partner countries.

Notes: Other Asia, nes describes areas in Asia not classified; in practice, this primarily represents Taiwan.

\* For 2009, 2010 and 2011 UN COMTRADE data replaced with SARS data for Lesotho and Swaziland; Conversion from Rand to US Dollar based on UNCTAD annual exchange rate.

**Table 6: Exports to South Africa from Lesotho and Swaziland**

	2005	2006	2007	2008	2009	2010	2011	2012
<b>Lesotho</b>								
HS61-62 Rand m	6	17	6	110	239	335	436	605
HS61-62 US\$ m	1	2	1	13	28	46	60	74
<b>Swaziland</b>								
HS61-62 Rand m	11	10	45	96	133	432	573	886
HS61-62 US\$ m	2	1	6	11	16	59	79	108

Source: SARS.

Notes: 1. According to SARS the accuracy of data for 2005 and 2006 should be treated with caution.  
2. The Lesotho HS 61-62 data for 2007 does not correlate and is likely to be the result of a misclassification.

### 3. Integrating Ownership in Apparel GVCs in SSA

The strength of GVC analysis has been a political economy framework foregrounding the concept of lead firm power driving value chain dynamics. These lead firms exercise power within GVCs as governors of market requirements and drivers of various standards. The GVC literature stresses that upgrading processes are shaped by the type of value chain in which firms are inserted, and in particular by the governance structure of chains. These structures influence the flow and allocation of activities and resources within chains, and hence, firms' prospects of entry and upgrading and the distribution of rewards and risks along chains (Gereffi et al. 2001, 2005; Kaplinsky/Morris, 2001).

Governance has, however, largely emphasized various technical relationships to the detriment of social, cultural and political dimensions of power. Within the GVC literature this limitation has been identified as the need to incorporate institutional context into governance (Palpacuer 2008; Bair 2005, 2009; Gibbon et al. 2008). In this respect, we identify forms of national firm ownership and their differential impact on value chain dynamics – either top down through different lead firms driving requirements and upgrading down the chain, or bottom up through various national supplier types responding differentially to value chain dynamics. It is difficult to find substantial empirical GVC research investigating the way differential ownership of firms (lead and supplier) plays as a socio-political driver influencing different patterns of governance structures, end markets, firm set-up and upgrading dynamics and prospects.<sup>7</sup>

Differentiating ownership of supplier firms specifies how they are linked to global production and distribution networks and the extent to which firms are locally or regionally embedded. Supplier ownership points to important aspects of embeddedness – how they are rooted in the social and economic fabric of the host country or region, and enmeshed in local and regional economic and social networks that shape their economic actions (Granovetter 1985). Ownership and embeddedness thus help explain how firms behave in value chains with important implications for the sustainability of production by capturing different strategies of local decision-making power, divergent responses to end market opportunities, value chain access and upgrading.

Based on supplier firm ownership, four types of firms and investors can be identified in apparel GVCs in SSA – transnational investors, regional investors, diaspora investors, and indigenous investors (for an overview of their importance in the respective countries, see Table 7; Staritz/Frederick 2012; Morris/Staritz 2014; Kamau 2009; Abdoolla 2013):

**Transnational investors:** These are primarily based in East Asia (Hong Kong, Taiwan, Korea), but also more recently in China, India and the Middle East. Transnational producers, faced with quota restrictions, rising labour costs and high demand from global buyers, have developed triangular manufacturing networks. They generally own or source from production units in several countries and regions, follow a global strategy involving long-run production of a narrow range of basic products made in large plants, and specialize in a narrow range of functional activities (Appelbaum 2008; Gibbon 2008a, 2008b). Their plants have very little autonomy and activities are generally limited to manufacturing, with higher value functions concentrated at head offices. Expats generally have an important role in management and technical positions. The primary drivers for transnational producers to invest in SSA were (labour) costs, regulatory regimes – MFA quota hopping, coupled with AGOA duty free access, together with flexible rules

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<sup>7</sup> Exceptions in the GVC literature include Bazan/Navas-Aleman 2004; Fessehaie/Morris 2013; Gibbon 2004, 2008a, 2008b; Morris/Staritz 2014; Staritz/Morris 2012; Morris et al. 2011, 2012.

of origin (ROO)<sup>8</sup> – and special FDI incentives. The MFA phase-out eliminated the need for quota free locations and several of these firms closed their operations in 2005.

In Lesotho and Swaziland, the large transnational firms still remaining are mostly owned by Taiwanese producers. In Kenya, investors in the export processing zones (EPZs) supplying the US market are mostly from Taiwan, Hong Kong, China, and India. In Madagascar, Asian firms came largely from Hong Kong, China, and Taiwan, but most left in 2009/10 when the US suspended Madagascar's AGOA membership. All transnational investors have exited Mauritius post-MFA (Abdoolla 2013).

**Regional investors:** These have head offices in their home country that are in charge of higher value functions and organize production networks focused on a specific geographic region. Notwithstanding important differences among regional investors, they do not have global investment and sourcing strategies, and their investments are based on geographic and cultural proximity, allowing for greater interaction and a more flexible division of labour. The primary drivers for regional investors in SSA were lower labour costs compared to their domestic economy, FDI incentives, preferential market access, and geographical proximity. Proximity refers not only to closeness to end markets and retailers (in the case of South Africa). It also enables regional apparel manufacturers to manage these production networks by allowing flexible use and easy spatial flow of management, technical and logistical resources.

In Madagascar, regional investors from Mauritius have relocated production since the mid 1990s. This was driven by some large Mauritian apparel groups relocating the production of basic products in search of cheap labour as the apparel industry in Mauritius moved into higher-value products. Outsourcing basic production to Madagascar allowed Mauritian firms to expand production and remain competitive in the basic product segment of the market, while simultaneously creating regional demand for Mauritian textile and apparel inputs (Abdoolla 2013; Ancharaz/Kasseeah 2012). In Lesotho and Swaziland, investors from South Africa took off after 2006 as a strategy to escape high domestic wages and inflexible labour market conditions.

**Diaspora investors:** These investors often derive from decades long settler immigrant families, are regarded as foreign because they are not indigenous, yet they have significant histories in the host country. Hence they are locally embedded, driven by social, historical and private economic factors. They are typically owner-managed single operation firms and are not part of tightly organized production networks nor do they operate with regional or global reach. Decision-making is controlled locally, which leads to greater functional flexibility. However, in contrast to indigenous investors (see below), they can draw on their diaspora status to link to global networks for input sourcing, access to finance, orders, etc. and/or access to buyers and end markets.

The most successful example in this regard are investors largely originated from French immigrants settling and setting up firms in Madagascar. The combination of Malagasy residence and French market connections provides them with a unique defining characteristic – local embeddedness in Madagascar through head offices and decision making located largely in Madagascar, but also access to European, particularly French, networks, buyers and markets through close cultural relationships. This type of investor is also found in Kenya in the form of Indian diaspora investors that operate in and outside the EPZs using their networks there,

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<sup>8</sup> ROO for apparel stipulate a certain percentage of the total value or certain production steps that must take place in the beneficiary country. Various stages of transformation are stipulated in different RoOs (see Staritz (2012) for a full explanation of different ROOs in various regulatory frameworks).

particularly for input sourcing. The latter focus mainly on the domestic market with only recently exporting a substantial portion of their output (38 % as indicated by interviews with 13 of these firms) into the regional market, particularly to the EAC (Staritz/Frederick 2012; Kamau 2009).<sup>9</sup> These firms In Lesotho and Swaziland, there are a few Asian (and one Mauritian) investors that are locally embedded. These firms often use their foreign networks for linkages with input suppliers and agents or working with sourcing and buying offices, but they have no linkages to end markets and buyers in contrast to the case of Madagascar.

**Indigenous investors:** These are investors that have local citizenship. They are typically owner-managed single operation firms with local decision making. They may, however, operate larger firms with some regional or to a lesser extent global reach, as in the case of Mauritian firms investing in Madagascar. These firms are driven by similar investor motivations – social, historical and economic – as the diaspora firms. The difference is that they do not share the same cultural heritage with buyers, input suppliers or agents in their home country or region and are unable to use this to facilitate their value chain linkages. This type of firm is most relevant in Mauritius, where it shares some characteristics with the diaspora investors due to the fact that the entire population is originally made up of immigrants with Franco-Mauritians playing a particularly important role in the apparel industry.

In terms of success these firms vary enormously, ranging from small indigenous-owned firms doing largely subcontracting work for foreign-owned export firms, to larger firms with well entrenched regional bases and successfully exporting to the EU, US and South Africa. Madagascar and Kenya have examples of the former, whilst Mauritius stands out with respect to the latter (Kamau 2009; Staritz/Frederick 2012; Abdoolla 2013). At the other extreme, Lesotho and Swaziland have no significant indigenous ownership of apparel firms (Staritz and Frederick, 2012). In Mauritius, indigenous investors dominate the apparel industry encompassing all sizes of firms, but with the top 12 to 14 firms accounting for almost 90 % of total production and exports (Abdoolla 2013; Ancharaz/Kaseeah 2012). In Madagascar, there are estimated to be only a dozen small indigenous firms left, and in Kenya there is only one export-oriented EPZ firm owned by an indigenous Kenyan as well as locally-owned domestic market oriented firms outside the EPZs, with only recently regional exports becoming important (Kamau 2009).

These ownership patterns are related to end markets in terms of being able to access them and sustain stable relations. The main end markets for SSA apparel exporters operate in distinct ways and require firms to follow different strategies. Transnational investors export nearly exclusively to the US market using AGOA. This is based on their global strategy, governance structure and firm set up. Exports to the EU in Mauritius and Madagascar come overwhelmingly from locally embedded European-diaspora or indigenous investors that have strong historical, cultural and language ties (Gibbon 2008a, 2008b). Regional exports to South Africa come from regional South African investors and Mauritian firms building networks with South African retailers. Increasingly some diaspora-owned firms, particular in Madagascar but also Swaziland, are also exporting to South Africa.

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<sup>9</sup> Estimates of the number of Indian diaspora- and locally owned firms outside the EPZs in Kenya range widely from less than 50 to 170 (for the latter, see Chemengich 2010).



**Table 7: Estimated types of export-oriented apparel firms (2012) (percentage)**

	Total number export-oriented apparel firms* (estimated)	Types of export-oriented apparel firms (estimated)			
		Transnational investors	Regional investors	Diaspora investors	Indigenous investors
<b>Lesotho</b>	31	11 (36%)	14 (45%)	6 (19%)	--
<b>Swaziland</b>	13	4 (31%)	3 (23%)	5 (39%)	1 (8%)
<b>Kenya</b>	18**	12 (67%)***	--	5 (28%)	1 (6%)
<b>Madagascar</b>	55	6 (11%)	14 (26%)	21 (38%)	12 (22%)
<b>Mauritius****</b>	120	--	--	--	120 (100%)

Source: For Lesotho, Swaziland and Kenya, Staritz/Frederick 2012; for Madagascar, Morris/Staritz 2014; for Mauritius, Statistics Office of Mauritius 2013 and Abdoolla 2013.

\* There are also very few 'other' firms in some of the countries so the four subgroups do not necessarily add up to the total number of firms.

\*\* In Kenya, this primarily includes export-oriented firms. Outside of the EPZs there are Indian-diaspora and locally owned apparel firms that primarily focus on the domestic market, with a recent increase in regional exports particularly to the EAC.

\*\*\* There are also few firms included that are based in EPZs and just do subcontracting work for transnational producers (for a detailed breakdown of types of EPZ firms in Kenya, see Staritz/Frederick 2012).

\*\*\*\* Data on Mauritius is for 2014. There are around 10 Franco-Mauritian and three Sino-Mauritian firms, but the boundary between diaspora and indigenous firms is difficult to maintain in the case of Mauritius.

Empirically, the relative importance of end markets can be related to ownership patterns. In Lesotho and Swaziland, the share of Asian transnational firms declined – in Lesotho from around 90 % in 2004 to around 60 % in 2012 with regional South African investments making up the remainder. In Madagascar between 2009 and 2012, the number of plants owned by diaspora and regional investors increased by 23 % and 14 %, respectively, while Asian transnational plants declined dramatically. In Mauritius, transnational investors left post-MFA, leaving the industry dominated by indigenous investors. By contrast, the Kenyan industry remained stable.

Despite similar characteristics in the five main SSA apparel exporter countries – reliance on PTAs, different forms of nationally defined investments, and regionalism – there are also important differences among them. Regionalizing exports towards South Africa is important for Lesotho, Swaziland, Mauritius and Madagascar, but not for Kenya. Regional investors are important in Lesotho, Swaziland and Madagascar, but not in Kenya and Mauritius. Mauritius and Madagascar have well established, historical links to Europe and export substantially to the EU market, whereas Kenya, Lesotho and Swaziland EU exports are insignificant. Kenya's export-oriented apparel industry is dominated by Asian transnational investors, whereas the importance of this group is either waning (Lesotho and Swaziland) or has largely disappeared in Mauritius and Madagascar. Although Mauritius and Madagascar demonstrate the key importance of strong locally embedded export-oriented entrepreneurs, only in Mauritius can one talk of a substantial export industry owned by citizens.

## 4. Firm Ownership, Embeddedness and Upgrading in SSA Apparel GVCs

This section discusses how these four ownership types of apparel firms, and the value chain channels they are integrated in, relate to a number of critical value chain distinguishing characteristics. The analysis shows how the different ownership types relate and differ with respect to (i) governance structure and functional upgrading (i.e. increasing a firm's range of functions or changing the mix of activities to higher-value tasks), (ii) end markets and channel upgrading (i.e. diversifying to new buyers or geographic and product markets), (iii) export profile and product upgrading (i.e. shifting to more sophisticated, complex or better quality products), and (iv) firm structure and process upgrading (i.e. reorganizing the production system or improving equipment and technology) (Humphrey/Schmitz 2001, 2002; Gereffi et al. 2001; Gereffi et al. 2005; Kaplinsky/Morris 2001; Frederick 2010; Frederick/Gereffi 2010; Frederick/Staritz 2011). In doing so we demonstrate how the co-evolution of highly differentiated ownership and value chain dynamics create a variety of upgrading and industrialization trajectories in the SSA apparel export industry.

### 4.1. Governance structure and functional upgrading

**Transnational investors:** Transnational investors followed a global strategy involving long-run production for export to the US of a narrow range of basic products made in large plants, with generally highly inflexible operating environments and specializing in a narrow range of functional activities (Gibbon 2008a, 2008b). They generally own production plants in several countries and manage triangular manufacturing networks, enabling access to global sourcing and merchandising networks. The governance structure is based on critical decision-making power and higher-value functions located abroad, including input sourcing (drawing on their own textile mills or sourcing networks in Asia), product development and design, logistics, merchandising and marketing, and direct relationships with buyers. Hence production plants of transnational producers in Lesotho, Swaziland, Kenya, Madagascar and previously Mauritius<sup>10</sup> have generally been restricted to CMT activities. The general managers of these firms are typically employees and not owners of the firms. The governance driver is AGOA and there is very limited interest in transferring more than manufacturing functions. Hence, the specific integration through triangular manufacturing networks limits local incorporation of higher value-added functions located in head offices. The functional upgrading challenge is not therefore about creating broader capabilities, but rather confronting the very reason for the establishment of production facilities in the first place.

**Regional investors:** These investors are regionally embedded and have company headquarters located in South Africa or Mauritius, where most decision-making as well as input sourcing, design and product development, merchandising and marketing, and the direct contact with buyers occurs. Firms in Lesotho, Swaziland and Madagascar supply largely on a CMT basis. Geographical proximity has, however, led to more interaction and a more fluid division of labour/functions between head offices and their foreign plants, particularly in production and design related matters. Some higher value adding pre/post production functions (pattern making, fabric management, logistic coordination) have also been partially transferred to these plants. As South African and Mauritian firms generally neither act globally nor own production plants in other countries, their regional plants are not as easily substitutable as are

<sup>10</sup> Transnational producers, particularly from Hong Kong, were important in Mauritius but they left after the end of the MFA as AGOA was not sufficient to stay competitive for their production model due to higher operating costs.



plants of transnational firms.<sup>11</sup> The regional value chain with the triangular manufacturing networks embedded in the region creates a certain tightness, proximity, and incentive to relocate more production functions and maintain a flexible porous relationship between South African and Mauritian head office functions and their plants in Lesotho, Swaziland and Madagascar.

**Diaspora investors:** Diaspora investors are locally embedded firms that generally operate single owner managed plants in the respective country. Decisions with regard to merchandising, marketing, and contact with buyers or agents are generally located locally. The division of labour and functions are more fluid as local decision-making power provides flexibility to react to constraints and opportunities. This is especially so in Madagascar, which has a critical mass of such diaspora firms. Several firms have sales offices or staff in Europe (Madagascar), or work with offices in the US and/or Asia (Kenya, Lesotho and Swaziland) in order to maintain relationships with buyers and input suppliers. There are critical differences between the European diaspora-owned firms in Madagascar and the diaspora-owned firms in Kenya (Indian), Lesotho and Swaziland (Asian). The former's close linkages to European end markets and buyers (see below) enable them to upgrade through supplying on a free on board (FOB) basis, sourcing and financing inputs themselves. In addition, many are on a trajectory of investing in activities such as cutting, washing, dyeing, embroidery and printing. In Lesotho, Swaziland and Kenya, these firms work with sourcing offices and agents in Asia and/or the US to get orders and source inputs. The functional upgrading potential of these firms is generally higher as they are not part of tightly organized global production networks. However, these firms generally do not have close relationships with US and (in the case of Lesotho and Swaziland) South African buyers which makes upgrading strategies challenging. Hence, they largely supply on a CMT basis and struggle to functionally upgrade along lines of the regionally owned firms.

**Indigenous investors:** Indigenous firms are not subordinates in global or regional networks headquartered somewhere else. The larger ones in Mauritius have established their own regional production networks, and even invested globally. Local embeddedness of the Mauritian apparel industry, coupled with significant government support, facilitated a substantial functional upgrading process. Firms upgraded capabilities to full package production, including input sourcing, product development and to a lesser extent also design involvement, and to higher value added products (see below). Partly responding to EU/SA ROO requirements, the larger firms also integrated backwards into the production of fabric and yarn and the local availability of textile inputs facilitated functional upgrading into full package production. Some large firms have also developed their own brands largely for the domestic market. In Madagascar, this firm type is struggling and declining – mostly due to an absence of government support and an inability to build on and consolidate buyer linkages. Hence they are driven into contract production and subcontracting work for the larger, successful regional Mauritian and European diaspora investors. The one export-oriented indigenous firm in Kenya also primarily works as a subcontractor for foreign-owned firms in EPZs, struggling to establish direct relationships with buyers.

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<sup>11</sup> However, the largest firms in Mauritius and few South African manufactures have started to open up some production plants in Asian countries.

## 4.2. End markets and channel upgrading

**Transnational investors:** The importance of AGOA to transnational producers is very clear, with well over 90 % of their apparel production exported to the US in Lesotho, Swaziland, Kenya and Madagascar.<sup>12</sup> Around 97 % of total output by sales value of Taiwanese firms in Lesotho and Swaziland goes to the US. In Madagascar, on average, the Asian firms export 88 % of their production to the US (even after the AGOA loss). Their main objective is to reach efficiency through large-scale production geared to the design and quality specifications set by US buyers. The competitive drivers of these firms are high volumes, cost and line efficiency, combined with AGOA duty advantage. Order sizes to the US market for these firms are very large – e.g., maximum order sizes range from 70,000 to 100,000 in Madagascar; in Lesotho minimum order sizes are around 30,000 (Barnes/Morris 2010). The European and South African smaller orders are generally below their cost threshold, and they cannot efficiently change production layout to justify smaller runs given their inflexible production set up. They are also disinterested in investigating new end markets given their global US focused strategy. Furthermore, locating sales and merchandising decision-making functions in Asia makes establishing relationships with buyers in the EU or South Africa difficult.

**Regional investors:** These firms export largely to the European and the South African markets. In Lesotho and Swaziland, the South African owned firms are tightly linked to their domestic retailers. Around 90 % of output is exported to South Africa. In Madagascar, Mauritian-owned firms export to the EU, and increasingly to South Africa. Historically, their Madagascar plants focused on longer-run, basic production for the US market, with more complex, fashionable and shorter-run products for the EU market being produced in Mauritius. Madagascar's post 2009 coup loss of AGOA status initiated a restructuring of activities with Madagascar based plants increasing production for Europe and South Africa, and Mauritian plants servicing US orders. The South African market is similar to Europe in terms of order size and demand specifications (Barnes/Morris 2010). Average order sizes for the Mauritian-owned firms in Madagascar range between 2,000 and 10,000 units, with the smallest orders ranging from 1,000 to 2,500 pieces. Average order sizes for the South African owned firms in Lesotho were around 2,000 to 5,000 for each style.

**Diaspora investors:** The critical difference between these firms in Madagascar and those in Kenya, Lesotho and Swaziland lies in the specific nature of their diaspora-established linkages. The French-connected diaspora firms in Madagascar use their historical, cultural and language heritage to establish close links to European markets and buyers, whereas the relatively few Asian-owned firms of this type in Lesotho, Swaziland and Kenya are dependent on relatively loose relationships to US buyers. In Madagascar, these firms export nearly exclusively to the European market (on average over 90 % of output) and recently to South Africa. They have not been affected by the loss of AGOA. In Lesotho, Swaziland and Kenya, more embedded foreign investors largely export to the US, where they often have no direct relationships with buyers but work through agents. Firms in Lesotho and Swaziland are interested in but struggle with exporting to South Africa with the main challenges being smaller volumes, and accessing and building relationships with retailers. The firms in Swaziland have been more successful in switching end markets to South Africa (Staritz/Frederick 2012).

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<sup>12</sup> This information is derived from various interviews undertaken by authors in 2012.

**Indigenous investors:** Local Mauritian firms have historically exported to the EU given strong historical, cultural and language ties (Gibbon 2008a, 2008b), but increased exports to the US under AGOA. After the MFA phase out, and the exit of Asian firms, they switched back to the EU as well as the South African market as AGOA was not sufficient to stay competitive in the relatively low value segment they were concentrated in the US market given the higher operating costs. The latter was based on meeting SADC trade preferences through locally available textiles, and active marketing efforts to establish relationships with South African retailers. Exports to the US have increased again in the last three years, albeit on a smaller scale and targeting more mid-market buyers. The government has actively supported targeting the export markets of Russia, the Middle East, Mexico, India, Canada and Australia. The main market, however, is still Europe where many firms tend to have close relationships to buyers. The Euro zone crisis has therefore affected these firms quite strongly with some of them having slowed down the pace of investments and remaining in a 'wait and see' mode (Abdoolla 2013). Relatively few indigenous firms in Madagascar export their production directly to EU buyers. The same holds for the locally owned export firm in Kenya. A challenge for direct relationships with buyers is the lack of merchandising departments, making them incapable of reacting quickly to buyers' requests.

#### **4.3. Export profile and product upgrading**

**Transnational investors:** Transnational investor firms generally export large orders of basic or semi-basic apparel products to the US. Their product range tends to be narrow and largely undifferentiated. Although some firms have changed their range marginally to meet buyer demands for more fashionable products, these changes are not fundamental. The long-run strategy of transnational firms requires focusing on relatively simple products. This is confirmed by the top 10 export products and unit values in the US market that are substantially lower than in the EU-15 and to a lesser extent South Africa (with the exception of Mauritius where, however, US exports do not come from transnational producers) (see appendix). Exports to the US are very concentrated and relatively similar with three products – men's woven cotton trousers (17 %), women's woven cotton trousers (15 %) and men's woven cotton shirts (14 %) – accounting for nearly 50 % of total US apparel exports from the five SSA main apparel exporter countries in 2011. In Madagascar, the average unit values for the top 10 US exports in 2011 were \$7 (and if wool sweaters are excluded, \$4.1), compared to \$9.6 in South Africa and \$11.3 in the EU-15, respectively. In Swaziland, they were \$5.3 compared to US\$10.3 for the South African market, and in Kenya, they were the lowest for the US market accounting for \$4.3. In Lesotho, they are also low, accounting for \$5.1 which is similar to unit values of the top 10 export products to South Africa (\$5.2).

**Regional investors:** In Lesotho and Swaziland, there are differences between the South African firms, but most focus on shorter run and more complicated products, with higher fashion content. Some manufacture basic products but on a replenishment basis that requires quick response. Some also utilize their Lesotho and Swaziland operations to manufacture basic, higher volume apparel but this is the exception. Only one product appears in the top ten export list to the US and to South Africa for Lesotho and two for Swaziland (i.e., men's woven cotton trousers and for Swaziland also women's woven cotton trousers) showing that the types of products exported differ significantly. In Madagascar, the shifts in end markets of regional investors also led to changes in the product mix, to shorter-run and more complex products with positive impacts on upgrading of processes, quality and skills. The export of these more complex products was only possible given the regional embedded production networks that

made changes in the division of labour possible between Mauritius and Madagascar, as well as the ability to use existing management capabilities in a flexible manner between locations.

**Diaspora investors:** In Madagascar, there is diversity in diaspora-owned firms with regard to types of apparel produced, but the majority of these firms have focused on more complex and fashion items that generally involve smaller batches and require a flexible firm set-up. Their strategy is to go up market, focus on higher-quality, more complex middle to high fashion products and build on their long-term relationships with European buyers. Some firms seem to be very successful with this strategy, serving high-range customers, including some French haute couture brands. Reflecting this flexibility, a major feature differentiating these firms is the relative smallness of their order sizes, which is directly related to the type of apparel products manufactured. Generally speaking, the maximum order size of diaspora firms ranges between 3,000 and 10,000 units, reflecting the nature of their main market. In Madagascar, this focus on more complex and fashion items can be supported with unit value data where the unit values of the top 10 exports to the EU-15 are higher than South African and particularly US unit values. In Swaziland, most of the diaspora firms have been successful in exporting to the South Africa market where they supply, at least compared to their US orders, shorter-run products that required adapting their production set up. In Lesotho and Kenya, these firms still largely export a product range to the US similar to transnational producers.

**Indigenous investors:** The majority of the indigenous larger and medium scale firms in Mauritius have followed a strategy of moving away from basic apparel products, upgrading to higher quality and semi-fashion goods with short runs and lead times and increasing the range and styles of products. Several firms are working with more complex and sometimes delicate fabric like lace or jersey, or special fabric providing ultraviolet (UV) production and sweat repellent properties (Ancharaz/Kasseeah 2012). Since several firms are vertically integrated and inputs are locally available, they can achieve short lead times and can offer buyers control over production and quality. As part of this strategy, the mid-market segment in EU markets has been targeted. Some firms also try to reposition themselves to compete in the fast fashion apparel segment in the EU against competitors such as Turkey, Morocco and Tunisia, which is possible given the availability of local yarn and fabric combined with regular air flights to the EU (due to the Mauritian tourist industry). Average unit values for the top 10 exports are quite similar in all three markets accounting for US\$9.2 in the EU-15, \$9.6 in South Africa, and \$10.9 in the US. The higher unit values in the US confirm the targeting of mid-market buyers with one particular product accounting for 71.2 % of total US exports (i.e., men's woven cotton shirts). Larger firms outsourced basic production to their Madagascar plants. As noted, this strategy has changed after the loss of AGOA status. Given the dependence on subcontracting of this firm type in Madagascar and Kenya, export products depend on the subcontracting firm. In Kenya, the one indigenous export-oriented firm largely produces long-run basic products for EPZ firms exporting to the US. In Madagascar, there has been sporadic product upgrading which is, however, not sustainable given the absence of long term relationships with buyers.

#### 4.4. Firm structure and process upgrading

**Transnational investors:** Given their firm set-up geared to long run and basic products they are not competitive in smaller run, higher fashion and quick response production required for the European and South African market. The size of their plants is in line with their focus on large-scale orders. In Lesotho and Swaziland, Asian-owned firms employ on average over 1,200 workers, compared to South African owned firms which employ on average 300-400 workers. In Kenya, on average, these firms employ around 1,450 workers. In Madagascar, on average Asian-owned plants employ 2,550 workers. These plants are significantly larger than the

regional and diaspora investors-owned firms in Lesotho/Swaziland and Madagascar. These firms generally manage quality by stringent quality checks at the end of the line, and hence claim minimal customer reject rates. When transnational producers came to SSA, they brought crucial knowledge and new technology and capabilities with regard to production set up and processes. However, only a few firms have undertaken improvements with regard to technology and production processes after their initial investment, and this is mostly ongoing investment in machinery. These firms have the basic assumption that worker costs and speed are the critical components of competitive production and there is very limited awareness of alternative methods and philosophies of manufacturing. Training is generally limited to basic production. Instead of investing in broader local skills, transnational producers largely import technical and management skills on a contract basis.

**Regional investors:** In Madagascar, Lesotho and Swaziland, these regionally owned firms have a firm structure generally geared to producing shorter runs with quicker response, and more complex products with a moderate to high fashion content supplying European and South African retailers. For these products, besides costs, production flexibility and higher, more versatile skills are important. Furthermore shorter production runs necessitate reducing time lost in line changes, as extended change-over times reduce labour productivity. In addition, shorter lead times associated with higher product variety requires them to build in quality at the source. Hence, dynamics in the European and South African end markets have pushed these firms to upgrade their operational efficiency, which involves a focus on process upgrading. This is indicated by a variety of performance measures. For example, in Lesotho the Taiwanese-owned firms' work in progress inventory was three times that of the South African-owned firms, revealing the long production run focus of their operations, as well as the batch oriented manner in which the plants are organized (Barnes/Morris 2010). Using rework rates as an indicator of internal flexibility, the average rework rates of Mauritian-owned firms in Madagascar were generally lower (6.2 %) than those of the transnational producers (10.8 %). Regional investors also employ expatriates from their home countries and Asia for supervisory, technical and management positions. But there are generally more locals in supervisory and middle management positions and, concomitant with the focus on more complex products, some differences in the depth of training available.

**Diaspora investors:** In Madagascar, diaspora-owned firms are also set up for small batch sizes and short runs suited to the European and South African markets. They produce complex, higher fashion apparel and have upgraded their processes through investing in equipment and more advanced forms of production organization. Some firms are involved in lean production processes. For example, one firm has introduced short U-shaped cells, with each station doing up to three activities. Some firms have introduced quality control at every stage. Most diaspora-owned firms measured rework rates that are low (on average 4.8 %), especially when compared to much higher rates for Asian and Mauritian owned firms. Diaspora-owned firms in Madagascar take local training seriously, which is related to the type of apparel produced and their high level of embeddedness in Madagascar. The use of expatriates is generally limited and owners highlight a symbiotic, rather than antagonistic, relationship between expatriates, skills upgrading and the promotion of local workers. In Swaziland most of the diaspora firms have adapted their production set up, which involved some process upgrading, to be able to supply the South African market. In Lesotho and Kenya, there seems to be limited development in terms of changes in firm structure.



**Indigenous investors:** In the process of diversifying away from basic to more complex and fashion products and meeting EU flexibility and sorter run requirements, indigenous firms in Mauritius placed a major emphasis on reorganizing firm set-up, product development, being capable of fine tuning and customizing buyer samples, and to a lesser extent creating their own design departments and producing their own semi collections. Rising labour costs have also forced firms to mechanize operations and invest in new technology. Given the local scarcity of labour for the apparel industry, expatriates mainly from Bangladesh, China, India and Madagascar constitute a large share of the labour force. In 2010 foreign workers were nearly 30 % as a share of total employment in the manufacturing sector (Ancharaz/Kaseeah 2012). In contrast to the other countries, expatriates largely work as line operators with management positions being filled by Mauritians. In Madagascar and Kenya, this firm type depends on subcontracting, which has led to some upgrading support with regard to processes and quality. A challenge is to maintain skills and capabilities on a consistent basis. Indigenous investors are relatively small, particularly in Madagascar, employing between 20 and 400 workers.

## 5. Conclusions

A major conclusion of this analysis is that ownership within value chains, end markets and regionalism matter. This is especially so in the context of the emergence of a new regionalism centred around investment and differentiated end markets, which provides pathways for new trajectories of more sustainable value chains and local industrialization in the SSA export-oriented apparel industry. Accessing the US market through AGOA post-2000 has been seen as the basis for the growth of SSA apparel industries. But, whilst this is relatively indisputable for the initial spurt it is not the case for the longer term sustainability of these industries after the end of the MFA. AGOA provided a basis for the maintenance of the US market-oriented industry after the end of the MFA, but it has not been strong enough to maintain the initial upward trajectory.

A number of other dynamics have played a greater role over this latter period in driving the export-oriented apparel industry in the major apparel exporter countries in SSA. These are shifting end markets, regionalism, and the differential role that various forms of ownership and local and regional embeddedness have played. These dynamics have provided a greater impetus to the development of the SSA apparel industries and shifted the dynamism of its trajectory away from a dependence on exporting to the US market through AGOA preferences to new more vibrant value chain channels based on exporting to the EU and South African markets. More locally and regionally embedded firms in these SSA countries have been able to shift – with uneven success – to new, and in particular regional, markets. In contrast, Asian-owned transnational producers remain focused on the US market with limited market opportunities and upgrading potential.

The distinctive nature of the triangular manufacturing network in which the Taiwanese-owned firms operate appears to be the major reason for the limited levels of upgrading within the Lesotho and Swaziland apparel industries. In contrast, regionally embedded South African investors in Lesotho and Swaziland exporting to South African retailers have initiated some upgrading processes related to their competitive advantage that lies in the flexibility dictated by close geographical proximity and lower (labour) costs compared to South Africa. Whether they succeed in maintaining this upgrading trajectory is heavily dependant on internal dynamics in the South African apparel industry, which is the ultimate driver of this regional value chain, as well the industrial policy response of the governments of Lesotho and Swaziland.

The Madagascan and Mauritian apparel industries' sustainability is more secure based on the emergence of locally-embedded ownership patterns which are driving upgrading. Madagascar's current well-being is attributable mostly to locally embedded European diaspora-owned firms and regionally embedded Mauritian firms that are largely focused on the EU market and increasingly the South African market. Mauritius' export apparel industry has been dominated by indigenous firms, who have taken over the sector after the exit of Asian transnational firms post-MFA. A key factor in the revival of the industry and an important influence on the success of indigenous Mauritian firms is supportive industrial policy by the government. The ability of these indigenous firms to shift towards new markets, initiate an upgrading trajectory from low value added products to complex apparel, and move into regional production locations and markets, has produced the most promising trajectory of the main SSA apparel exporter countries.

The Kenyan export industry is on the least promising trajectory as the bulk of it remains focused on the long run, relatively low value US market. There are, however, some interesting regional dynamics being found in Indian-diaspora and locally owned firms traditionally focusing on the domestic market where recently regional exports have become important.

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## Appendix

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## Tables

**Table A1: Mauritius' top 10 apparel exports and unit values to EU-15, US and SA**

HS code	Product	Value (US\$m)	Share (%)	UV (US\$/pc)
<b>EU-15</b>				
<b>Total exports</b>		<b>494.0</b>		
<b>Total top 10</b>		<b>375.6</b>	<b>76.0%</b>	
610910	T-shirts (N/A, cotton)	188.1	<b>38.1%</b>	4.5
610990	T-shirts (N/A, other textiles)	41.1	<b>8.3%</b>	5.8
620342	Trousers (M&B, cotton)	27.6	<b>5.6%</b>	12.8
611020	Jerseys (N/A, cotton)	25.7	<b>5.2%</b>	8.4
610510	Shirts (M&B, cotton)	25.5	<b>5.2%</b>	7.8
611010	Jerseys (N/A, wool)	20.6	<b>4.2%</b>	20.5
610610	Blouses (W&G, cotton)	12.8	<b>2.6%</b>	6.3
610442	Dresses (N/A, cotton)	12.3	<b>2.5%</b>	8.1
610462	Trousers (W&G, cotton)	11.2	<b>2.3%</b>	4.3
620520	Shirts (M&B, cotton)	10.8	<b>2.2%</b>	13.5
<b>Average UV (top 10)</b>				<b>9.2</b>
<b>Weighted average UV (top10)</b>				<b>5.4</b>
<b>Median UV (top 10)</b>				<b>8.0</b>
<b>US</b>				
<b>Total exports</b>		<b>162.7</b>		
<b>Total top 10</b>		<b>157.8</b>	<b>97.0%</b>	
620520	Shirts (M&B, cotton)	115.8	71.2%	10.9
620462	Trousers (W&G, cotton)	15.0	9.2%	12.8
620342	Trousers (M&B, cotton)	11.5	7.1%	9.6
611020	Jerseys (N/A, cotton)	4.1	2.5%	8.6
610910	T-shirts (N/A, cotton)	3.6	2.2%	4.8
611030	Jerseys (N/A, MMF)	1.9	1.2%	5.5
610510	Shirts (M&B, cotton)	1.9	1.1%	12.6
610990	T-shirts (N/A, other textiles)	1.7	1.1%	5.6
611010	Jerseys (N/A, wool)	1.3	0.8%	28.0
620630	Blouses (W&G, cotton)	1.0	0.6%	11.0
<b>Average (top 10)</b>				<b>10.9</b>
<b>Weighted average (top10)</b>				<b>10.5</b>
<b>Median (top 10)</b>				<b>10.2</b>
<b>South Africa</b>				
<b>Total exports</b>		<b>103.3</b>		
<b>Total top 10</b>		<b>89.7</b>	<b>86.9%</b>	
610910	T-shirts (N/A, cotton)	33.2	<b>32.1%</b>	3.4
620342	Trousers (M&B, cotton)	23.0	<b>22.2%</b>	13.1
610510	Shirts (M&B, cotton)	6.7	<b>6.5%</b>	5.6
620520	Shirts (M&B, cotton)	6.7	<b>6.4%</b>	15.3
610990	T-shirts (N/A, other textiles)	6.3	<b>6.1%</b>	4.8
620462	Trousers (W&G, cotton)	4.4	<b>4.3%</b>	13.4
610462	Trousers (W&G, cotton)	2.7	<b>2.6%</b>	4.6
611020	Jerseys (N/A, cotton)	2.6	<b>2.5%</b>	10.3
611010	Jerseys (N/A, wool)	2.3	<b>2.2%</b>	18.3
610831	Nighties/Pyjamas (M&B, cotton)	1.9	<b>1.8%</b>	7.4
<b>Average (top 10)</b>				<b>9.6</b>
<b>Weighted average (top10)</b>				<b>7.1</b>
<b>Median (top 10)</b>				<b>8.9</b>

Source: UN COMTRADE.

**Table A2: Madagascar's top 10 apparel exports and unit values to EU-15, US and SA**

HS code	Product	Value (US\$m)	Share (%)	UV (US\$/pc)
<b>EU-15</b>				
<b>Total exports</b>		<b>346.9</b>		
<b>Total top 10</b>		<b>264.7</b>	<b>76.3%</b>	
611010	Jerseys (N/A, wool)	103.3	29.8%	23.3
611020	Jerseys (N/A, cotton)	29.8	8.6%	11.4
620520	Shirts (M&B, cotton)	23.4	6.8%	10.7
620342	Trousers (M&B, cotton)	22.6	6.5%	9.3
620462	Trousers (W&G, cotton)	17.5	5.0%	7.9
620442	Dresses (W&G, cotton)	16.3	4.7%	11.4
610910	T-shirts (N/A, cotton)	15.4	4.4%	3.7
620630	Blouses (W&G, cotton)	14.8	4.3%	10.4
620920	Babies' garments (N/A, cotton)	13.2	3.8%	65.87 (kg)*
611030	Jerseys (N/A, MMF)	8.3	2.4%	13.6
<b>Average UV (top 10)</b>				<b>11.3</b>
<b>Weighted average UV (top10)</b>				<b>11.1</b>
<b>Median UV (top 10)</b>				<b>10.7</b>
<b>US</b>				
<b>Total exports</b>		<b>41.7</b>		
<b>Total top 10</b>		<b>31.6</b>	<b>75.8%</b>	
611120	Babies' garments (N/A, cotton)	8.6	20.7%	30.11 (kg)*
620342	Trousers (M&B, cotton)	4.8	11.6%	4.8
611020	Jerseys (N/A, cotton)	4.6	11.0%	5.1
610510	Shirts (M&B, cotton)	3.2	7.6%	2.6
610462	Trousers (W&G, cotton)	2.5	6.1%	4.0
610990	T-shirts (N/A, other textiles)	2.0	4.7%	1.7
620462	Trousers (W&G, cotton)	1.8	4.4%	4.7
611010	Jerseys (N/A, wool)	1.6	3.8%	29.7
610220	Coats (W&G, cotton)	1.3	3.2%	8.3
610343	Trousers (M&B, synthetic)	1.2	2.8%	2.0
<b>Average (top 10)</b>				<b>7.0</b>
<b>Weighted average (top10)</b>				<b>3.3</b>
<b>Median (top 10)</b>				<b>4.7</b>
<b>South Africa</b>				
<b>Total exports</b>		<b>40.3</b>		
<b>Total top 10</b>		<b>37.9</b>	<b>94.0%</b>	
620520	Shirts (M&B, cotton)	11.0	27.4%	12.5
620630	Blouses (W&G, cotton)	5.7	14.2%	9.2
620342	Trousers (M&B, cotton)	5.0	12.3%	9.8
611030	Jerseys (N/A, MMF)	4.3	10.5%	8.5
610510	Shirts (M&B, cotton)	2.9	7.2%	5.8
611020	Jerseys (N/A, cotton)	2.8	6.9%	12.3
610910	T-shirts (N/A, cotton)	2.7	6.6%	2.2
611010	Jerseys (N/A, wool)	1.7	4.2%	15.9
620462	Trousers (W&G, cotton)	1.1	2.7%	6.6
611090	Jerseys (N/A, other textiles)	0.8	2.0%	13.3
<b>Average (top 10)</b>				<b>9.6</b>
<b>Weighted average (top10)</b>				<b>9.4</b>
<b>Median (top 10)</b>				<b>9.5</b>

Source: UN COMTRADE.

**Table A3: Lesotho's top 10 apparel exports and unit values to US and SA**

HS code	Product	Value (US\$m)	Share (%)	UV (US\$/pc)
<b>US</b>				
<b>Total exports</b>		<b>325.6</b>		
<b>Total top 10</b>		<b>295.4</b>	<b>90.7%</b>	
620342	Trousers (M&B, cotton)	102.6	31.5%	7.5
620462	Trousers (W&G, cotton)	37.7	11.6%	6.4
610463	Trousers (W&G, synthetic)	32.0	9.8%	6.5
611030	Jerseys (N/A, MMF)	26.9	8.3%	3.9
611020	Jerseys (N/A, cotton)	23.3	7.2%	3.8
610520	Shirts (M&B, MMF)	19.8	6.1%	5.3
610510	Shirts (M&B, cotton)	17.5	5.4%	5.3
610462	Trousers (W&G, cotton)	13.7	4.2%	3.6
610990	T-shirts (N/A, other textiles)	11.0	3.4%	4.4
610343	Trousers (M&B, synthetic)	10.9	3.3%	3.9
<b>Average UV (top 10)</b>				<b>5.1</b>
<b>Weighted average UV (top10)</b>				<b>5.4</b>
<b>Median UV (top 10)</b>				<b>4.8</b>
<b>South Africa</b>				
<b>Total exports</b>		<b>60.0</b>		
<b>Total top 10</b>		<b>38.2</b>	<b>63.7%</b>	
610910	T-shirts (N/A, cotton)	6.3	10.5%	1.3
620349	Trousers (M&B, other textiles)	5.8	9.7%	5.7
620343	Trousers (M&B, synthetic)	5.1	8.5%	8.5
620342	Trousers (M&B, cotton)	4.8	8.0%	4.2
620339	Jackets (M&B, other textiles)	3.4	5.6%	6.0
620319	Suits (M&B, other textiles)	3.4	5.6%	10.2
610610	Blouses (W&G, cotton)	3.1	5.2%	1.0
620463	Trousers (W&G, synthetic)	2.3	3.8%	3.7
621210	Brassieres	2.1	3.4%	58.0 (kg)*
620590	Shirts (M&B, other textiles)	2.0	3.3%	6.4
<b>Average (top 10)</b>				<b>5.2</b>
<b>Weighted average (top10)</b>				<b>3.1</b>
<b>Median (top 10)</b>				<b>5.7</b>

Source: UN COMTRADE.

**Table A4: Swaziland's top 10 apparel exports and unit values to US and SA**

HS code	Product	Value (US\$m)	Share (%)	UV (US\$/pc)
<b>US</b>				
<b>Total exports</b>		<b>80.2</b>		
<b>Total top 10</b>		<b>64.3</b>	<b>80.1%</b>	
620342	Trousers (M&B, cotton)	15.5	19.3%	5.9
611030	Jerseys (N/A, MMF)	13.1	16.4%	4.1
620462	Trousers (W&G, cotton)	8.1	10.1%	6.0
620463	Trousers (W&G, synthetic)	7.9	9.9%	6.6
610343	Trousers (M&B, synthetic)	4.0	5.0%	5.1
610520	Shirts (M&B, MMF)	4.0	4.9%	4.7
611020	Jerseys (N/A, cotton)	3.8	4.7%	3.3
610463	Trousers (W&G, synthetic)	3.0	3.8%	5.6
620520	Shirts (M&B, cotton)	2.5	3.1%	4.7
610230	Coats (W&G, MMF)	2.4	2.9%	6.8
<b>Average UV (top 10)</b>				<b>5.3</b>
<b>Weighted average UV (top10)</b>				<b>4.1</b>
<b>Median UV (top 10)</b>				<b>4.9</b>
<b>South Africa</b>				
<b>Total exports</b>		<b>78.9</b>		
<b>Total top 10</b>		<b>64.9</b>	<b>82.3%</b>	
610910	T-shirts (N/A, cotton)	26.6	33.7%	22.2
621132	Garments (M&B, cotton)	8.0	10.2%	17.2 (kg)*
620342	Trousers (M&B, cotton)	6.6	8.4%	8.2
620462	Trousers (W&G, cotton)	4.9	6.2%	9.4
620690	Blouses (W&G, other textiles)	4.2	5.4%	5.6
620630	Blouses (W&G, cotton)	4.1	5.2%	11.1
620469	Trousers (W&G, other textiles)	3.4	4.3%	10.5
620323	Ensembles (M&B, synthetic)	3.3	4.2%	9.1
620442	Dresses (W&G, cotton)	1.8	2.3%	11.4
620452	Skirts (N/A, cotton)	1.8	2.2%	10.3
<b>Average (top 10)</b>				<b>10.9</b>
<b>Weighted average (top10)</b>				<b>11.0</b>
<b>Median (top 10)</b>				<b>9.4</b>

Source: UN COMTRADE.

**Table A5: Kenya's top 10 apparel exports and unit values to US**

HS code	Product	Value (US\$m)	Share (%)	UV (US\$/pc)
<b>US</b>				
<b>Total exports</b>		<b>272.1</b>		
<b>Total top 10</b>		<b>213.6</b>	<b>78.5%</b>	
620462	Trousers (W&G, cotton)	69.8	25.7%	6.3
610462	Trousers (W&G, cotton)	37.3	13.7%	3.2
611020	Jerseys (N/A, cotton)	27.2	10.0%	3.9
611030	Jerseys (N/A, MMF)	20.8	7.6%	3.8
620342	Trousers (M&B, cotton)	15.6	5.7%	4.0
610343	Trousers (M&B, synthetic)	10.0	3.7%	3.5
620343	Trousers (M&B, synthetic)	10.0	3.7%	4.9
610510	Shirts (M&B, cotton)	8.5	3.1%	6.4
620920	Babies' garments (N/A, cotton)	7.4	2.7%	21.9 (kg)*
610910	T-shirts (N/A, cotton)	7.0	2.6%	2.7
<b>Average UV (top 10)</b>				<b>4.3</b>
<b>Weighted average UV (top10)</b>				<b>3.5</b>
<b>Median UV (top 10)</b>				<b>3.8</b>

Source: UN COMTRADE.