

CCTC Newsletter October – December 2015

Welcome to the third bulletin of the CCTC for 2015. Quickly scan it for stories of interest by clicking on any story link. The main article in this bulletin presents a comprehensive view of the African market for clothing and textiles and is thought provoking reading for any local manufacturer or retailer.

Please forward it on to colleagues who you think would benefit, or subscribe to receive the bulletin on a quarterly basis by emailing cctc@bmanalysts.com with your details.

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Collaborative Cluster Event

The Cape Clothing and Textile Cluster was hosted by the KZN CTC on the 12 August as part of a collaborative learning event and study tour. First stop was at Hesto Harnesses, pictured, which manufactures wiring harnesses for the Automotive Industry from a factory situated in Stanger, 90km north of Durban in KwaZulu-Natal. This was an exceptional opportunity for our cluster members to visit a company competing at the very highest end of the market, using non-metro labour while showcasing the very best in manufacturing standards globally.



This was followed up by an evening's presentation by Dr Justin Barnes on the Madagascan Clothing Industry. Dr Barnes outlined the growth in supply by Madagascar into the European retail space, highlighting the potential threat to South African manufacturers as these manufacturers are highly competitive and focussing



increasingly on South Africa as a market. The presentation resonated with prior learnings from Turkey and South Africa on the importance of speed to market as a differentiating value proposition, while also raising the question of South African manufacturer's need to think of the potential of a regional supply base

Insight into Africa: Clothing and textiles markets

Introduction

Africa is booming. Indeed, over the past decade, it has been among the fastest-growing regions globally. As a result, the continent offers new opportunities for investment and sales. This newsletter examines the growth and market potential of selected African economies, with a focus on clothing and textile opportunities.

According to a report recently released by the Boston Consulting Group, "with seven sub-Saharan African countries ranking among the 10 fastest-growing economies in the world, many retailers consider the region the 'next big thing'. It is urbanising at a rate of 3.61%, faster than any other region in the world, with GDP growth close to 6%".

While in aggregate terms, Africa is a fairly small player in the global clothing and textiles markets, recent years have seen some interesting and notable developments. Africa's share of total global clothing imports has grown from 1.4% in 2010 to 2.2% in 2014 (a significant increase given the size of global exports of \$428 billion in 2014). The continent's share of global textiles imports has risen from 5.1% to 6.0% over the same period. While export growth has been more moderate, it is important to mention the African Growth and Opportunity Act (AGOA), which provides duty-free access to the United States market for 6 400 products (including clothing and textiles) from 40 African countries. The impact of this Act, passed by US Congress in May 2000, has been profound for certain African producers of clothing and textiles. For example, Lesotho has seen employment in its clothing and textile industry increase from 20 000 in 2000, to 44 000 by 2015. South Africa, too, has been a significant beneficiary of AGOA. The act is scheduled to expire in September 2015, but a 10-year extension is currently awaiting the signature of the President of the United States.

In light of the growth in clothing and textile markets on the continent, significant opportunities reside north of the border for South African manufacturers – particularly relevant to the textiles industry, but also in respect of identifying key markets with growth opportunities for clothing manufacturers.

Major African markets

This newsletter focuses on major African economies, selected on the basis of the size of their economies, the extent of clothing and textile markets and production, and their geographical proximity to South Africa, and discusses some emerging opportunities on the continent. A list of these countries, and key economic

indicators, is presented in [Figure 1](#), below. It is clear from the data that several of these countries display formidable economic growth, significantly in excess of developed economies.

Figure 1: Major African markets

Country	Population	GDP (2013 est. \$ bn)	GDP/capita (\$ PPP)	GDP growth		
				2013	2012	2011
SA	48 375 645	353.9	11 500	2.0%	2.5%	3.5%
Kenya	45 010 056	79.9	1 800	5.1%	4.6%	4.4%
Ethiopia	96 633 458	47.6	1 300	7.0%	8.5%	11.4%
Tanzania	49 639 138	31.9	1 700	7.9%	6.9%	6.4%
Zambia	14 638 505	22.2	1 800	6.0%	7.2%	6.8%
Mauritius	1 331 155	21.0	16 100	3.4%	3.3%	3.8%
Malawi	17 377 468	15.0	900	5.0%	1.9%	4.3%
Mozambique	24 692 144	14.7	1 200	7.0%	7.4%	7.3%
Madagascar	23 201 926	10.5	1 000	2.6%	1.9%	1.8%
Zimbabwe	13 771 721	10.5	600	3.2%	4.4%	10.6%

These growth rates are mirrored in growing demand for clothing and textiles. Ethiopia, for example, saw clothing imports increase by 122% between 2010 and 2014, while Mozambique saw imports grow by 243%, albeit off a smaller base. Demand for textiles has shown strong, if less spectacular, growth over the period, with African imports growing at an average of 9.4% between 2010 and 2014, or 41% over the entire period. While Madagascar shows continued strength in textiles exports (largely thanks to AGOA), Ethiopia has shown sustained increases in textile imports, possibly signalling growing local apparel production. Mauritius continues to be a significant exporter of clothing, while Kenya has shown consistent growth in clothing imports – a sign of strong local apparel demand.

Cost of doing business and WEF competitiveness- opportunities and costs

[Figure 2](#) provides a brief overview of the business environment in ten significant African economies. It shows country rankings in terms of corruption and ratings for ease of doing business, according to the World Bank. The results are varied: Mauritius is ranked best for both a low corruption environment and ease of business (at 47th and 20th respectively). South Africa is placed second in both measures, with a corruption ranking of 67th out of 175 countries, and an ease of business ranking of 43rd out of 189 countries. Zimbabwe is ranked most corrupt (156th) and the least conducive business environment (170th). [Figure 2](#) also provides a matrix of the identified barriers to entry in these 10 countries. Notable are the proliferation of cheap imports; infrastructure deficits; and bureaucracy and compliance requirements. It is interesting to note Mauritius and Madagascar's relatively free and open trading environments, relative to the likes of Mozambique and Malawi; a significant trade advantage as their superior performance in respect of performance exhibits.

Figure 2: Business environment

	SA	Kenya	Ethiopia	Tanzania	Zambia	Mauritius	Malawi	Mozambique	Madagascar	Zimbabwe
Corruption Index (Ranking out of 175 countries)	67	145	110	119	85	47	110	119	133	156
Rating (WB Doing Business Report, 2014) (Ranking out of 189 countries)	43	129	132	131	111	20	171	139	163	170
Barriers to entry	Cheap imports									
	Labour action									
	Lack of governance									
	Infrastructure deficit									
	Tariffs									
	Bureaucracy, compliance requirements									
	Underdeveloped financial sector									
	Expensive/inadequate communications									

Figure 3 provides a summary of logistics, infrastructure and market access for the 10 economies, based on World Bank rankings. What is clear are the difficulties these countries face across all three areas. Indeed, Mauritius is the only country ranked in the top 100 for trading across borders. In fact, Mauritius is a clear positive outlier in all measures presented below in terms of trade and logistics. Comparatively, the other countries have significantly higher import and export costs, and long lead times for in-bound and out-bound trade.

Figure 3: Logistics, infrastructure and market access

	S.A.	Kenya	Ethiopia	Tanzania	Zambia	Mauritius	Malawi	Mozam	Madagascar	Zimbabwe
WB Logistics Performance Index (Rank/160)	34	73	104	138	123	115	74	147	132	137
WEF Infrastructure Performance Index (Rank/144)	60	96	125	130	118	42	131	128	135	124
Trading across borders (Rank/189)	100	153	168	137	177	17	170	129	109	180
Imports (days)	21	26	44	26	53	14	39	25	21	71
Exports (days)	16	26	44	18	51	11	34	21	22	53
Documents to export (number)	5	8	8	7	7	4	11	7	5	7
Cost to export (US\$ per container)	1 830	2 255	2 380	1 090	5 165	675	2 200	1 100	1 195	4 265
Documents to import (number)	6	9	11	11	8	5	12	9	9	8
Cost to import (US\$ per container)	2 080	2 350	2 960	1 615	7 060	710	2 895	1 600	1 550	6 160
Ave applied MFN tariff- Textiles (HS 56,58,59,60)	14.4	20.3	-	20.3	20.8	0.2	21.9	13.9	17.1	14.6
Ave applied MFN tariff-Clothing (HS 61, 62)	41.0	25.2	-	25.2	25.0	0.0	25.0	20.0	19.9	10.0
Ave applied MFN tariff- Other made up articles, worn clothing incl. (HS 63)	26.3	25.7	-	25.7	23.8	7.1	23.2	18.6	18.9	26.9

Clothing market opportunities

In the recent BCG study, it was highlighted that the rapidly emerging middle class in Africa will continue to provide new opportunities, particularly in retail. The study found that, in general, African consumers are looking to increase consumption spending, and are highly brand-conscious. According to BCG, “this suggests



that multinational companies with well-established and well-known brand portfolios formally entering the African market for the first time could be positively received.”

A closer examination of selected African economies reveals some exciting developments. In Ethiopia, the apparel market is forecast to grow by up to 13.4% per annum into 2018, and has seen FDI from the likes of H&M, Primark and Wal-Mart. In addition, approximately 50 Turkish textiles and apparel companies have relocated to establish an industrial zone in Addis Ababa. In Kenya – east Africa’s largest economy – labour-market flexibility and well-developed financial markets facilitate industrial growth. The clothing market is heavily reliant on AGOA, with over 90% of exports destined for the USA (BMA, 2015). The Madagascan apparel industry is similarly dependent on AGOA, and has shown notable growth in clothing exports from 2010; a situation that will continue to improve with the country’s re-inclusion into AGOA.

In an interview with the International Business Times (2013), Wayne McCurrie (a portfolio manager at Momentum SA) underscored the extent of the African opportunity facing retailers. He noted, “Africa is massively under-serviced in terms of formal retail options. There is a sizeable part of the population that has the means to buy from formal shops, but don’t have the options available. There is plenty of interest in Africa, so those companies that don’t make a move now will be left behind.”

Textile market opportunities

Africa continues to develop a dynamic textile industry, assisted by AGOA’s textile provisions, particularly in countries like Madagascar, which shows recovering textile export levels. While South Africa remains the dominant textiles exporter, Mauritius, Kenya and Tanzania are all large textile producers themselves. In contrast, data show that Ethiopia is fast becoming a large importer of textiles. Indeed, according to a recent CNBC report (2014), Tesco has announced that it intends to expand sourcing operations in Ethiopia, which will increase apparel production in that country, while H&M is also looking to increase Ethiopian production.

Several South African retailers have begun to take advantage of the opportunities offered by the impressive growth in the rest of the continent. Mr Price has grown to 88 stores in 13 countries, and plans on further expansion, while PepCor has a significant presence in the Southern African Development community. The Foschini Group plans to increase stores in the rest of Africa from 120 to more than 300, and Truworths now has 102 stores in Africa. The rapid expansion of these and other retailers provides exciting opportunities for new markets and additional sales for South African textiles and apparel manufacturers (BMA, 2015).

A cautionary tale

Despite the notable opportunities available to investors seeking to expand into Africa, unbridled optimising should not cloud investors’ judgement; the Madagascan example provides due caution. Madagascar was removed from the AGOA agreement in 2010, following a coup d’état in the previous year. According to an article by Lewis and Sy (2014), the revocation of Madagascar’s AGOA membership caused exports from Madagascar to the USA to drop by 70%, greatly increased the probability of factory shutdowns, and had a devastating effect on the country’s textiles industry. In addition, the United Nations Economic Commission for Africa (2010) found that that the exclusion had negative effects on regional economies, noting that the



revocation “affected several countries which are also AGOA beneficiaries, as Madagascar’s apparel sector uses denim fabric from Lesotho, zippers from Swaziland, and cotton yarn from Zambia, Mauritius and South Africa.” While Madagascar has subsequently been re-included in AGOA, Swaziland had its AGOA membership revoked as of January 2015 – after it failed to meet AGOA criteria in terms of worker rights – highlighting the continued risk posed by exclusion.

Conclusion

There is no denying that African countries continue to face significant challenges and barriers to investment and growth. Infrastructure is generally poor, and there are significant logistical hurdles that need to be addressed. However, strong population growth, and solid economic performance present exciting opportunities for investment and sales across the continent.

Upcoming Events (November–December 2015)

Date	Event
	Executive
10 November	CCTC EXCO Meeting
10 November	Madagascar Feedback Event
	World Class Manufacturing
Benchmarks	Jacques Hau

Recent Events (January–October 2015)

Date	Event
March	WCM Training for Managers
April	WCM Training for Supervisors
April	AGM and Ten Year Celebration
March, April	QR Training for Manufacturers
May	CIP Peer Review of Radeen
June	TRACE programme launch
June	CIP Year End function and Best Practice Tour of Prestige
July	Strategic HR Workshop: Selection and Performance Management
August	Strategic HR Workshop: Absenteeism and Retention
August	Best Practice Tour and Madagascar Feedback Event
August	QR Training for Retailers
October	WCM TSC Meeting
October	WCM Supervisor Session
October	Quick Response for Designers and Pre-production Personnel

Your Ideas

If you have any ideas for improvement or would just like to get in touch, please contact:

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