

POLICY POINTS

African governments should provide stronger incentives to increase production for the local market and local participation in the CTA sector.

The US government should establish a renewable energy mandate for the CTA sector to integrate effective solutions for affordable electricity, transit, and logistics.

The Chinese government should offer increased access to financing and establish Textile Trade Advisory Centers to help Chinese SMEs with advisory and capacity-building support.

Chinese and African governments should cooperate in designing quality Environmental, Social, and Governance (ESG) standards for the CTA sector.

The East Africa Shift in Textile and Apparel Manufacturing: China-Africa Strategies and AGOA's Influence

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AN EMERGING SHIFT OF THE COTTON-TEXTILE-APPAREL (CTA) value chain from China to East Africa has been influenced by China's excess capacity, lower labor costs, duty-free incentives for exports to the US under the African Growth and Opportunity Act (AGOA) and its related Third-Country Fabric Provision. For East African countries, taking this opportunity to integrate the currently fragmented cotton-textile-apparel value chain could bring remarkable trade and economic growth to the region. For China, the largest textile and apparel manufacturer in the world, it is an opportunity to both transfer its excess capacity and increase investment into East Africa. Based on field research and case studies on four African and Chinese textile manufacturers in Kenya and Ethiopia, this policy brief highlights several opportunities for both East Africa and China as influenced by AGOA and makes recommendations on public-private collaboration to support this shift.

CONTEXTUAL OVERVIEW

EAST AFRICA'S CTA VALUE CHAIN IS CURRENTLY MARKED by incompleteness and underdevelopment. Although the region has a growing cotton sector and a vibrant export-oriented apparel industry, the textile sector is largely underdeveloped. Seventy percent of cotton produced in the region is exported, while export-oriented apparel factories in East Africa mostly source from Asia rather than regionally.¹ Key textile inputs, accessories, and machine parts are also imported. Researchers agree that this overwhelming dependence on foreign input supply has profoundly hindered development of the value chain, adding inefficiency and costs. As export-oriented companies look to diversify products and export destinations, they find long order-to-delivery times, poor labor skills, outdated equipment, and high electricity prices restrict them to the high-volume, low-margin market segment.

Within the region, Kenya and Ethiopia have the highest potential to achieve regional integration of the CTA value chain and are the top sourcing destinations in SSA of greatest interest to global buyers.² Kenya has a rapidly growing garment sector and the largest share of exports to the US under AGOA (36.3% of volume as of 2013).³ About 70% of Kenyan apparel companies focus on exporting to the US with total apparel exports increasing from US\$8.6 million in 2000 to US\$332 million by 2014.⁴ Ethiopia also has

a rapidly growing apparel manufacturing sector, receiving the most FDI to the CTA industry of any country in Africa. From 2008-2013, Ethiopia attracted a total of US\$250 million in integrated CTA investments. Mostly serving domestic and regional markets, Ethiopia only captures a 1.2% share of AGOA exports.⁵

AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

RENEWED THROUGH 2025, AGOA is a US Trade Act established in 2000 to spur economic development in Sub-Saharan Africa (SSA). The Third Country Fabric Provision allows most AGOA beneficiaries to utilize yarns and fabrics from any origin. With an average applied apparel tariff of 11.4%, AGOA beneficiaries gain competitive advantages over Asian competitors with duty free access to the US market, making apparel the top non-energy export to the US for several AGOA countries.⁶ The 2025 window encourages producers and investors alike to make long-term investments in yarn and fabric production, currently the weakest link in the CTA value chain, and allows factory owners and managers to build long-term partnerships and enhance skills and compliance for both higher quality and larger scale orders. The AGOA extension positions African producers well in comparison to Asian competitors, who are still negotiating trade agreements with Europe and the United States. However, experts contend that the development and growth impact of AGOA on the CTA industry is limited given that low value addition and lack of production spillover characterize the sector in East Africa.

Researchers claim that AGOA's provision of free access to the US market serves as an incentive for increasing Chinese investment. Tang found few Chinese apparel factories were interested in exporting to US or European markets due to the perception of those buyers as stringent on quality, delivery time, and certification.⁷ Given local productivity constraints, Chinese firms are ambivalent to enter developed markets with few Chinese companies having set up AGOA export-oriented factories in Africa.

Chinese involvement in Africa's CTA value chain is concentrated in the apparel sector due to low capital requirements and ease of transporting resources to Africa. Investment is further driven by preferential government investment policies, low wage requirements, access to local markets, intense competition in domestic markets, and excessive domestic production capacity. Investors take advantage of China's excess capacity through transferring second-hand machinery and experienced laborers to East Africa.

CASE STUDIES

CHOSEN ON A BASIS OF SCALE AND ACCESSIBILITY, the following companies interviewed are among the largest in the textile and apparel sector in Kenya and Ethiopia.

DONGFANG SPINNING PRINTING AND DYEING PLC was one of the first Chinese textile companies in Ethiopia. Founded in 2013, Dongfang focuses primarily on the dyeing and printing business. They mainly supply polyester materials to apparel factories targeting domestic and regional markets. Using imported second-hand machineries and raw material from China, they source man-made fibers from Jiangsu Province as inputs. Polyester fabric is unavailable locally and cotton inputs in China are half the price as those available in Ethiopia. Located in the Eastern Industrial Zone outside of Addis Ababa, Dongfang ultimately plans to relocate its production base from China to Ethiopia.

MAA GARMENT AND TEXTILES, established in 2004, is an Ethiopian company equipped with world-class technology and have vertically integrated mills with spinning, knitting, dyeing and stitching capacity. MAA focuses on the export-oriented garment sector in Europe and the US, with relatively small-scale local textile mills. They have vertically integrated mills with spinning, knitting, dyeing and stitching capacity. Of all companies interviewed, MAA is the only one to source locally. MAA has the machinery required for processing raw cotton in Ethiopia.

NEW WIDE GROUP is a Taiwanese garment manufacturer established in 1975 with manufacturing plants in China and operations in Kenya. Their global expansion includes eight factories in Kenya, Lesotho, and Ethiopia with plans to continue expanding African operations. They are the largest exporter of textiles and apparel products to the US in Kenya with customers including Walmart, JCPenny, and Adidas. They source raw materials, fabrics, and accessories from China, as demanded by international buyers and for manufacturing of AGOA exports.

BEDI INVESTMENTS LIMITED is a Kenyan company established in 1972. The group's investment activities in textile and apparel focus on the full value chain from fiber to fashion. The company is vertically integrated in Nakuru, manufacturing poly-blended yarns, woven fabrics, and apparel. Its global client network

includes regional institutional customers, high fashion stores, and large retail chains in Europe and the US. The company employs 800 people. As with MAA, Bedi operates vertically integrated mills with a similar focus on the export-oriented garment sector.

FACTORIES PRODUCING FOR INTERNATIONAL MARKETS, including MAA, New Wide and Bedi, tend to install advanced machinery to maintain high productivity and production quality to meet standards required by EU and US buyers. Bedi and MAA's vertically integrated operations are a solution to counter the lack of specialized upstream and downstream factories in the two countries, helping them survive as standalone local operations. All the interviewed companies identify labor management as their biggest challenge. High turnover, lack of skilled labor, and low labor productivity are other major constraints.

CONCLUSION

GENERALLY, CHINESE APPAREL FIRMS have aligned their corporate and operational strategy with targeting East Africa, such that they do not actively invest to meet the technical and quality requirements of US buyers, as local and regional markets require less investment in technology, social, and environmental compliance. Driven by domestic and regional textile and apparel demand, rather than AGOA incentives, Chinese CTA companies in East Africa benefit from easy access to low-cost inputs from China. Both companies (Dongfang and New Wide) with operations in China and East Africa positioned themselves in the value chain distinctly through capitalizing on linkages with the Chinese textile sector. These factors provide China a competitive advantage in serving these regional markets.

Although at the enterprise level the positive impact of AGOA is demonstrated by the fact that AGOA-export oriented companies have relatively high standards in terms of technology, working conditions, and environmental impact, there are few signs that East Africa's CTA value chain is making significant progress towards integration. Given limited availability of suppliers, textile inputs for foreign-owned apparel firms are almost exclusively imported. With both Kenyan and Ethiopian governments allowing foreign investors to import manufacturing materials tax-free, the companies interviewed prefer to utilize established Chinese supply chains for sourcing. As the most capital-intensive segment in the CTA value chain, textile manufacturing in the region faces serious challenges of

high cost and unreliable electricity, which significantly reduces productivity and increases manufacturing costs.

We did not find evidence that Chinese CTA companies came to Africa with Chinese government policy support. Very few Chinese textile or apparel manufacturers have received financial support or easy access to government backed financing when building operations in Africa. Tang Xiaoyang asserts that Chinese banks often see CTA companies as too small in scale to offer financial support.⁸ As evidenced by Dongfang's experience, the CTA industry does not seem to be a priority in China's "Belt and Road" strategy. Regarding African governments, aside from generic export-free-zone incentives, neither the Kenyan nor Ethiopian government provide financial incentives to companies building local CTA production lines.

POLICY RECOMMENDATIONS

1. **African Governments should provide stronger incentives to increase local production** in the CTA sector and facilitate spillover effects to build capacity for local apparel manufacturing. Incentives include: Special Economic Zones (SEZs) connected to strategic off-takers, tax holidays, tax deductions on new investments in buildings and machinery, and tax exemption for export manufacturers who sell 20% of their production to the domestic market.
2. **US Government should establish a renewable energy mandate for the CTA sector through a USAID program** by collaborative planning between AGOA, Trade Africa, and Power Africa to integrate effective solutions for affordable electricity, transit, and logistics. Given current international trade and power demands, the outcome of this collective effort could create thousands of new jobs and would be complementary to increasing policy and investment interest in off-grid and mini-grid solutions, ultimately propelling the development of light manufacturing.
3. **Chinese government should offer increased access to financing and establish Textile Trade Advisory Centers to help Chinese SMEs with advisory and capacity-building support.** The Chinese government needs to support small and medium companies by improving accessibility to financing for private Chinese CTA manufacturers and opening textile trade advisory centers. Centers would serve to better leverage the existing framework and increase access to relevant

investment information and proven best practices; centers would be led by the Economic and Commercial Counselor's Office within Chinese Embassies.

4. **Chinese and African Governments should cooperate in designing quality Environmental, Social, and Governance (ESG) standards for the CTA sector.** African governments can engage the Chinese government and U.S. policy makers on a joint policy regarding ESG standards for textile and apparel companies focusing on strategies to improve employee training, working conditions, career advancement, living wage compensation, the advancement of women, employee benefits and, perhaps, community engagement programs focusing on health and safety. ★

ENDNOTES

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THE SAIS CHINA-AFRICA RESEARCH INITIATIVE at the Johns Hopkins University School of Advanced International Studies (SAIS) in Washington, D.C. was launched in 2014. Our mission is to promote research, conduct evidence-based analysis, foster collaboration, and train future leaders to better understand the economic and political dimensions of China-Africa relations and their implications for human security and global development.

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