COTTON AND TEXTILE PRODUCTION IN THE GLOBAL TRADING SYSTEM: WHERE DOES AFRICA STAND?

ORGANIZER AND RAPPORTEUR MADELEINE GAUTHIER (USA)

In the current era of globalization a healthy, export-oriented textile and clothing sector can be a powerful engine of growth and development for poor countries, who should have a comparative advantage in labour-intensive manufacturing industries. While several African countries are significant cotton producers, most of their exports are in the form of raw fibre and the textile industry has remained relatively small. This is a puzzling outcome given (a) the availability of the raw material, (b) preferential access to the lucrative European Union market through the Lomé convention, and (c) a global relocation of textile mills from industrialized to developing (lower-wage) countries. It suggests that factors other than trade barriers have constrained expansion. The symposium sought to explore the role played by domestic policies (or lack thereof), market imperfections, relative factor endowment and institutions on cotton exports and the development of the textile and clothing industry. The participants were Philip Abbott (USA), John Baffes (USA), Madeleine Gauthier (USA), William Masters (USA), Joshua Nyoni (Zimbabwe), Eckhard Siggel (USA), Christopher L. Delgado (USA), Simeon Ehui (Ethiopia) and Shahla Shapouri (USA).

Cotton is interesting from the point of view of trade, economic development and policy analysis. It is one of the few crops that is economically significant in both developing and developed countries. It is also an important cash crop for millions of small farmers throughout the world, with government intervention being prominent, to meet various objectives, in almost every producing country. Cotton policies take in a range of price or border interventions to support producers' income, or of taxes to raise government revenue or support domestic textile industries.

Cotton is extremely important in Africa, particularly in Francophone West Africa. Intervention has mostly been through the monopoly power granted to marketing parastatals and export agencies. Most countries, however, have now implemented reforms as result of structural adjustment programmes, although with varying success.

There is a close linkage between cotton production and downstream processing activities. The quality and quantity of production directly affects the performance of the ginning sector, though state intervention to support the textile and clothing industry tends to be detrimental to the performance of cotton production. Support should only take the form of a direct transfer, supply-neutral policy. Because of the particular requirements of cotton production, with new varieties and production techniques appearing regularly, and the high vulnerability of the crop to pest and disease, market reformers must consider who, if not the government, ought to ensure the provision of research, extension and quality control services. The issue of credit availability to small farmers also needs to be addressed.

The Multifibre Arrangement (MFA), with its complex system of bilateral quotas, was said to have created trading patterns that have little to do with comparative advantage. Interestingly, trade has increased tremendously in the last 25 years, despite the apparent restrictiveness of the MFA. A close look at EU imports of textiles and clothing shows that the value of trade with Asian countries, who face both quotas and tariff, has increased rapidly. At the same time, Africa has remained an insignificant source of supply despite the fact that the Lomé convention grants free access to some countries. This is evidence that Asian producers have found ways to circumvent the quota constraints and that external, institutional and domestic resource factors have impeded African development of a manufacturing base to take advantage of Lomé preferences.

The argument of revealed comparative advantage is substantiated in a general equilibrium modelling exercise. Simulation of the impact of the Uruguay Round agreement to 2005, when the MFA phase-out is to be completed, shows Africa increasingly specializing in non-grain crop production (including cotton) and mining, while losing ground in light manufacturing, including textiles and clothing. These results stem to a large extent from initial endowments, where Africa has a relative abundance of land, natural resource and labour but a slow rate of capital accumulation from a low initial level. One key question here is whether foreign direct investment can modify these trends. Central to these issues is the long-debated question of the growth and development path to be pursued and of the real or perceived conflict between industrialization and an 'agriculture and natural resources'-based economy.

Detailed studies have exposed some of the challenges faced by Africa. In Kenya and Uganda, for instance, high interest rates, exchange rate distortions, high transport costs and corruption have clear detrimental impacts on the competitiveness of manufacturing firms, despite recent market liberalization. Even if indicators of competitiveness show that Kenya has some comparative advantage in textile and clothing manufacture, increasing cost distortions since the mid-1980s have led to a loss in export competitiveness. Hence trade reforms are insufficient to enhance competitiveness. Domestic policies must also be geared to the creation of an enabling business environment. In particular, the question of capital constraints was again debated in the light of firm-level evidence showing that capital costs and weak financial sectors are constraining manufacturing development in Uganda and Kenya. It is obvious that there is a huge unmet demand in East Africa, in particular, since there is so much reliance on imports of second-hand clothing from Asia and elsewhere.

In trying to explain poor performance in Africa, despite there being local cotton production and preferential access to the EU market, many of the factors can be traced to the institutional and policy environment. Clearly, the argument about whether Africa can compete in textiles and clothing is a critical one. The case of Morocco, however, brings some counterbalance to the argument. In recent years, Morocco has successfully developed an export-led clothing industry despite having no apparent comparative advantage. This is due in large part to foreign investment and contractual production with firms in importing countries, fostering a positive climate for progress. There is an urgent need to pinpoint the issues which constrain growth elsewhere.