Report

AfCFTA implementation challenges: towards an African continental textiles and apparel value chain

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Key messages

Intra-Africa trade in apparel will remain important, and expansion of these exports should be a goal under the AfCFTA

Textiles production, rather than apparel assembly, has been the driver of industrialisation. So, the AfCFTA should be leveraged to attract investment in these segments, including developing own brands

Development of capabilities requires access to technology and tacit knowledge, which is likely to be achieved by collaborating with foreign firms. Export orientation can help achieve competitiveness, and preferential market access schemes like AGOA can help break into mature markets while offering a means to learn to export continentally. Specialisation, typically in low-value-added activities, needs to be complemented by investments in other high-value-added activities for domestic/regional markets

Industrial policies are key to bringing such collaboration about and to ensure learning for productivity. These must build on the different

rules and protocols of the AfCFTA, including rules of origin, investment protocol and so on
The continental textiles and apparel RVC under the AfCFTA should build on existing ones and prioritise building globally competitive capabilities while maximising intra-Africa trade and focus on African markets when possible

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Abbreviations and acronyms

AfCFTA	African Continental Free Trade Area\
AGOA	Africa Growth Opportunity Act
ASEAN	Association of Southeast Asian Nations
AU	African Union
c.i.f.	cost, insurance and freight
CMT	cut, make and trim
COMESA	Common Market for Eastern and Southern Africa
CTH	change in tariff heading
DTIC	Department of Trade, Industry and Competition, South Africa
EAC	East African Community
EBA	Everything But Arms
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EU	European Union
FCDO	Foreign, Commonwealth & Development Office
FDI	foreign direct investment
FTA	free trade area
GVC	global value chain
HS	Harmonized System
ILO	International Labour Organization
LDC	least developed country
NMSPG	Nelson Mandela School of Public Governance
NTB	non-tariff barrier
REC	regional economic community
RoOs	rules of origins
RoW	rest of world
RVC	regional value chain
SADC	Southern African Development Community
SEZ	special economic zone
SITA	Supporting Trade and Investment in Africa
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
WCO	World Customs Organization
WIPO	World Intellectual Property Organization

Executive summary

Given the ambition of the African Continental Free Trade Area (AfCFTA) to develop robust regional value chains (RVCs) on the one hand, and the importance of the textiles and apparel as a stepping stone to industrialisation on the other, this paper aims to analyse the potential for ‘a continental textiles and apparel RVC’ under the AfCFTA. The textiles sector is key to understand given that blockages in RoO negotiations are holding back full completion of the AfCFTA negotiations.

It builds upon the ongoing ‘Common Vision’ process initiated by the AfCFTA Industrialisation Advisory Council and seeks to address the question: ‘What would it take to create a continental textile and apparel value chain?’

The paper examines current sectoral dynamics to understand the current African position in the value chain, including some of the key political economy aspects. Based on these, and the ambitions set out in the Common Vision, the paper then looks at how AfCFTA rules and instruments can facilitate the emergence of this RVC through investments in textiles, shifts in sourcing from within the continent, and increase sales to the African market. The ultimate goal is to inform ongoing negotiations, particularly concerning rules of origin (RoOs), and to overcome current blockages hindering full implementation of the AfCFTA and therefore its potential to support industrialisation.

The paper begins by acknowledging the diverse landscape of the African textiles and apparel sector, characterised by a mix of large and small, foreign-owned and locally-owned, export-oriented and domestically-focused firms with varying levels of capabilities and competitiveness. Moreover, some RVCs already exist in the continent. The paper also highlights the role of different kinds of investors in the sector and the varied kinds of state business relations and rent space which impact the extent to which firms are disciplined to become competitive and political leaders can be convinced to prioritise long term goals of economic transformation over short term goals related to their political survival.

The AfCFTA should be leveraged to attract much needed investments for developing capabilities in textiles production. This has been the stepping stone towards industrialisation, rather than apparel assembly which dominated current activity in the African textiles and apparel industry, apart from production of cotton which is exported unprocessed.

A ‘continental textiles and apparel RVC’ should consolidate capabilities and build on existing RVCs. This may entail some degree of sequencing, where expanding intra-Africa apparel exports could be a goal within the AfCFTA, while attracting investments into textiles including to develop own brands.

While the objective of textiles and apparel RVCs is to engage in higher value-added activities, building the necessary capabilities will require collaboration with foreign firms by participating in the global value chain (GVC) to gain access to latest technologies and tacit knowledge. However, while GVCs provide the opportunities for specialisation in products required in mature markets such as the US or the EU, these are often limited to low value-added activities. It is therefore necessary that alongside this specialisation by African firms, investments are also made in developing own brands to engage in higher value-added activities. The power dynamics and other value chain features mean that these locally/regionally branded products are likely to be for the African market.

These dynamics are firm-led decisions yet facilitating them requires coordination. This can be brought about by industrial policy that prioritises learning for productivity to build capabilities and promote vertical integration. Access to mature markets through preferential access regimes such as the Africa Growth Opportunity Act will remain key to engage in learning by exporting. Thus, trade policies will remain important. This also includes the treatment of second-hand clothing which can be limited with conditionalities.

At the same time, given that developments, especially economic upgrading, will be based on commercial decisions, policy initiatives should complement rather than drive the process. The stalled negotiation of rules of origin (RoO) should therefore be seen in perspective. The study shows that increasing eventual intra-Africa trade flows will require addressing other inhibiting factors beyond RoO.

Investments are needed in other fibres, as well as yarn and fabric production. Broader global trends towards sustainability and diversification away from China have generated an interest in vertical integration. The interest in the GVC could therefore coincide with the goal of economic transformation. Taking advantage of these developments requires proactive and opportunistic strategies by African governments, complemented by the enabling rules and tools that the AfCFTA provides.

1 Introduction

The textiles and apparel value chain has long held an important place in economic development strategies, including in Africa.[1] In the 1980s and 1990s, the sector collapsed in many African countries following liberalisation, often under structural adjustment programmes as industrial policy was frowned upon and governments were pushed towards 'trusting the market'. However, recent experiences such as in Bangladesh, or closer home in Mauritius suggest the value chain can still play a key role in supporting national development, manufacturing employment, technological upgrading, increasing value addition and contributing to industrialisation.

However, through the African Continental Free Trade Area (AfCFTA), policy-makers in Africa have signalled their interest in creating regional value chains (RVCs) around textiles and apparel.[2] These would connect existing capabilities at different stages of the value chain, both increasing demand for inputs from African countries and serving African markets. As Whitfield and Triki (2023) put it, 'The AfCFTA represents a huge opportunity and a significant asset for the industry's potential in the next decades.'

The textiles and apparel sector is identified as a key value chain for a "Made in Africa" revolution (AfCFTA Secretariat and UNDP, 2021) and as a potential priority in the AfCFTA Private Sector Strategy (AU, 2024). But the differing positions of AfCFTA State Parties on textiles and apparel-related RoOs are proving to be a sticking point in finalising AfCFTA negotiations. This lack of agreement on approaches has blocked the possibility of fully implementing the Agreement five years after its launch, reflecting the lack of a shared continental vision for the value chain among policy-makers and private sector actors.

In response, the AfCFTA Industrialisation Advisory Council has led efforts to create a 'Common Vision' for the sector. In collaboration with private sector actors from different parts of the textiles and apparel value chain, from different countries, and serving different markets, the 'Call for Action from the Private Sector'

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[1] Here, we refer to textiles and apparel as a shorthand for the full value chain running from fibres production to textiles, apparel/garments and retail. The full value chain is illustrated in Figure 1.

[2] Under Article 3 of the AfCFTA Agreement, one of the general objectives of the AfCFTA, 3(g), is to 'promote industrial development through diversification and regional value chain development'. Similarly in the Protocol on Trade in Goods, one of the specific objectives under Article 2 is 'e), the development and promotion of regional and continental value chains'.

envisages a 'globally competitive, regenerative and vertically integrated industry in Africa'.[3] This vision and follow-on discussions offer a way to bring the RoO negotiations into perspective in terms of the wider challenges to overcome in promoting a continental textiles and apparel value chain.

This paper seeks to build on that Common Vision and the process around it, by addressing the question: ***What would it take to create a continental textiles and apparel value chain?*** It looks at the current sectoral dynamics, how these affect positions on and interests in a continental value chain, and how implementation of AfCFTA rules and instruments might therefore support the emergence of such an RVC through investments and shifts in sourcing and sales.

The ambition of this paper is to (i) build on numerous existing in-depth analyses and (ii) feed further discussions on how to take the textiles and apparel value chain forward under the AfCFTA. It takes explicit account of the interests and incentives that shape the current value chain across different countries but also what guides current negotiation positions. Through this, we aim to identify what paths exist to promote a textiles and apparel RVC, thus helping overcome current RoO negotiation blockages.

Through the Common Vision process, private sector actors identified a series of key challenges that are reflected in the following analysis. Summarised in Box 1, these are important to help frame the RVC discussion, but also as a basis for looking forward towards potential policy responses, particularly in terms of understanding (i) the potential role of the AfCFTA and its RoOs for developing the sector and (ii) the range of levels at which policies will be needed to really make a continental RVC a reality.

Box 1 Key challenges identified by private sector

1. African textiles and apparel industry remains nascent, and at the margins of the textiles and apparel global value chain (GVC).
2. The industry is concentrated at both the start and the end of the value chain – in fibres/raw materials and apparel – with very few capabilities in fabric and textile production.
3. The production of apparel in Africa relies heavily on imported inputs, mostly from Asia.
4. Africa's textiles and apparel production is heavily skewed towards cotton products.
5. Apparel exports largely go to Europe and North America.
6. High levels of imports of second-hand clothing partially weaken domestic demand for finished clothing products.

[3] This document has not been published but can be shared on request.

7 Intra-African trade in industry is extremely low.

8 There are significant non-tariff barriers (NTBs) that need to be addressed and that hinder intra-African trade in the industry.

9 Additional structural weaknesses in the African industry include:

- underdeveloped infrastructure, including transport and logistics
- difficulties in access to and costs of energy and
- inconsistent and uneven use of public procurement.

10 The development of a vibrant textiles and apparel industry needs to consider the current major trends shaping the global industry and take advantage of a window of opportunities offered by these trends.

Source: AfCFTA Secretariat and NMSPG (2024)

Beyond these challenges, the analysis points to the following potential avenues to explore in creating a continental textiles and apparel RVC:

- Consider different continental RVCs to target different markets – external and intra-African.
- For each one, decide where the barriers to coordination are easiest to overcome.
- Beyond tariffs and RoOs, explore what other AfCFTA protocols might be used, and how.

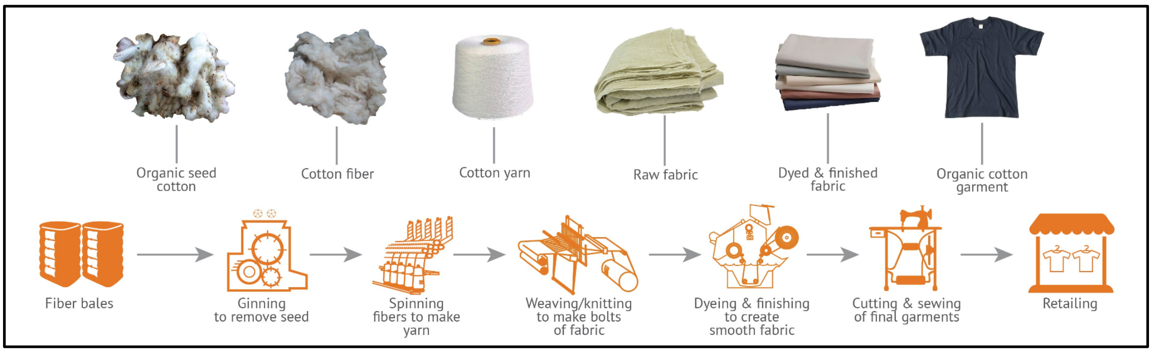
The remainder of the paper is organised as follows. Section 2 discusses African textiles and apparel trade patterns and trends. It discusses where the African countries and regions fit in terms of value chain segments; the range of target markets, often linked to different regions; and the different firm types and where they fit in this context. The section finishes with a summary of ‘political economy aspects’ that emerge from interviews with different public and private actors and that shape the space and openings for thinking about creating a continental RVC, discussed in Section 3. Section 3 presents the emerging vision for a regional continental value chain in textiles and apparel as understood by the private sector and the AfCFTA secretariat. It identifies the key issues that need to be addressed in order to create a regional value chain in the textiles and apparel sector. Section 5 discusses the way forward from the current deadlock in the negotiations and how to move from discussions towards implementing the emerging common vision for the textiles and apparel sector.

2 Sectoral overview

2.1 A brief continental overview

Multiple recent analyses characterise the full textiles and apparel value chain by country-level trade patterns. In broad terms, most African countries' activities in the value chain are concentrated in the cotton-fibre and apparel sections – the two extremes of the value chain (Figure 1). But as we discuss in this section, even if less significant, activity in other segments of the value chain may offer a basis for greater RVC connections. Other important value chain characteristics relate to *target markets*, with important differences between firms producing for markets outside Africa such as the US and the EU through preferential agreements such as the Africa Growth Opportunity Act (AGOA) and Everything but Arms (EBA) and those geared towards African, often domestic, markets, and among different types of investors, indigenous, diaspora, regional and foreign.

Figure 1 An overview of the value chain



Source: Pakistan Today (2019)[4]

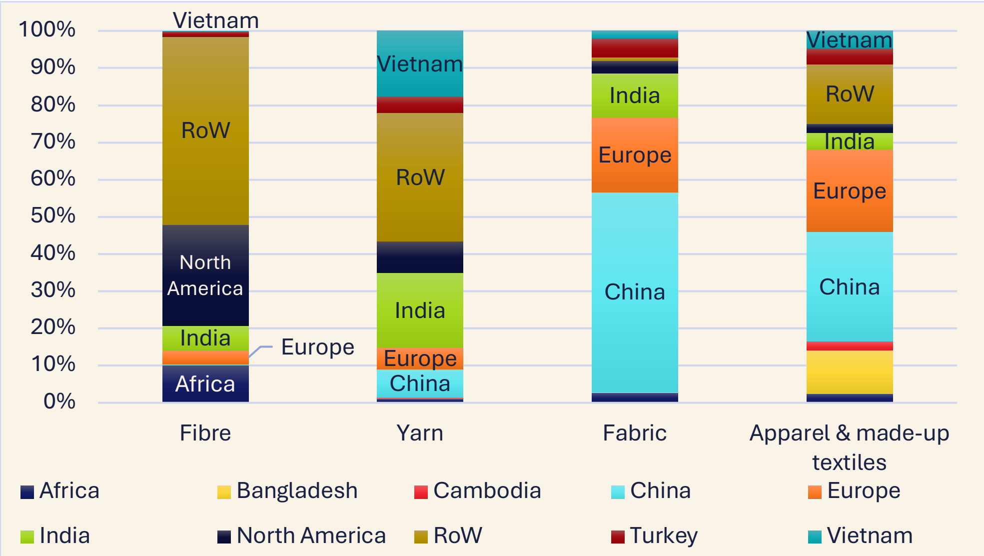
2.1.1 Overall pattern in cotton and man-made products

Africa accounts for an important share of world cotton fibre exports (9%), as reflected in Figure 2, though yarn and fabric production remain limited, reflected in their low export shares. This is even more the case in African exports of man-made intermediate products (fibre, yarn, fabric) as Figure 3 shows. Its relatively high level of global cotton fabric imports (19%, see Figure 4) shows the prominence of apparel assembly (for export) on the continent. Interestingly, imports of man-made fabric are sizable, as are the imports of yarn and fibre

[4] See https://profit.pakistantoday.com.pk/2019/01/14/why-pakistans-cotton-value-chain-has-begun-to-atrophy/#:~:text=One%20of%20the%20reasons%20for,prices%20like%20wheat%20and%20sugarcane.

(see Figure 5), suggesting that there is demand for these even if production in the continent is limited. However, this hides significant differences across the different regions in Africa, further discussed in section 2.2 below.

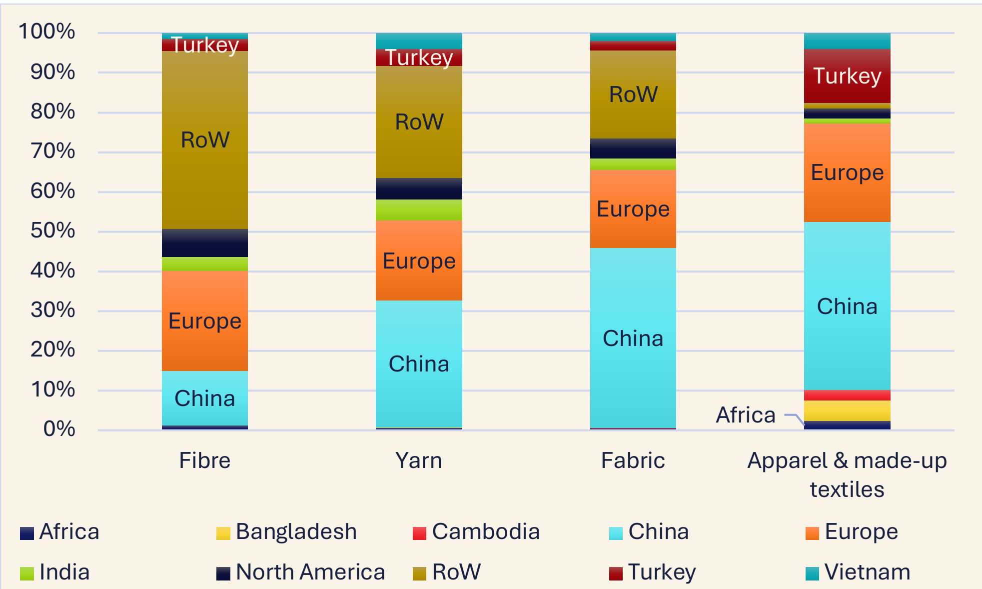
Figure 2 Share of world exports of cotton products, by country and value chain segment, average 2019–2022



Source: CEPII-BACI reconciled trade flows

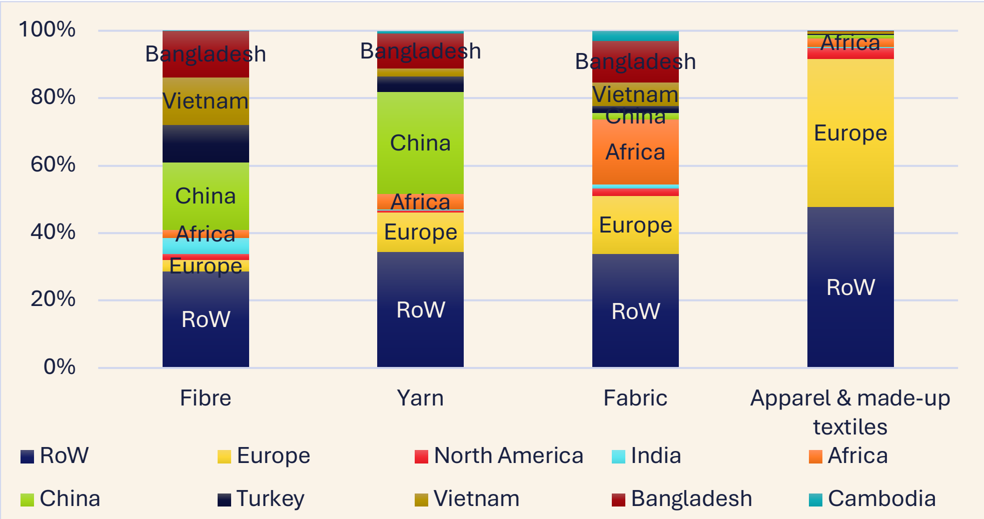
Note: RoW = rest of world.

Figure 3 Share of world exports of man-made products, by country and value chain segment, average 2019–2022



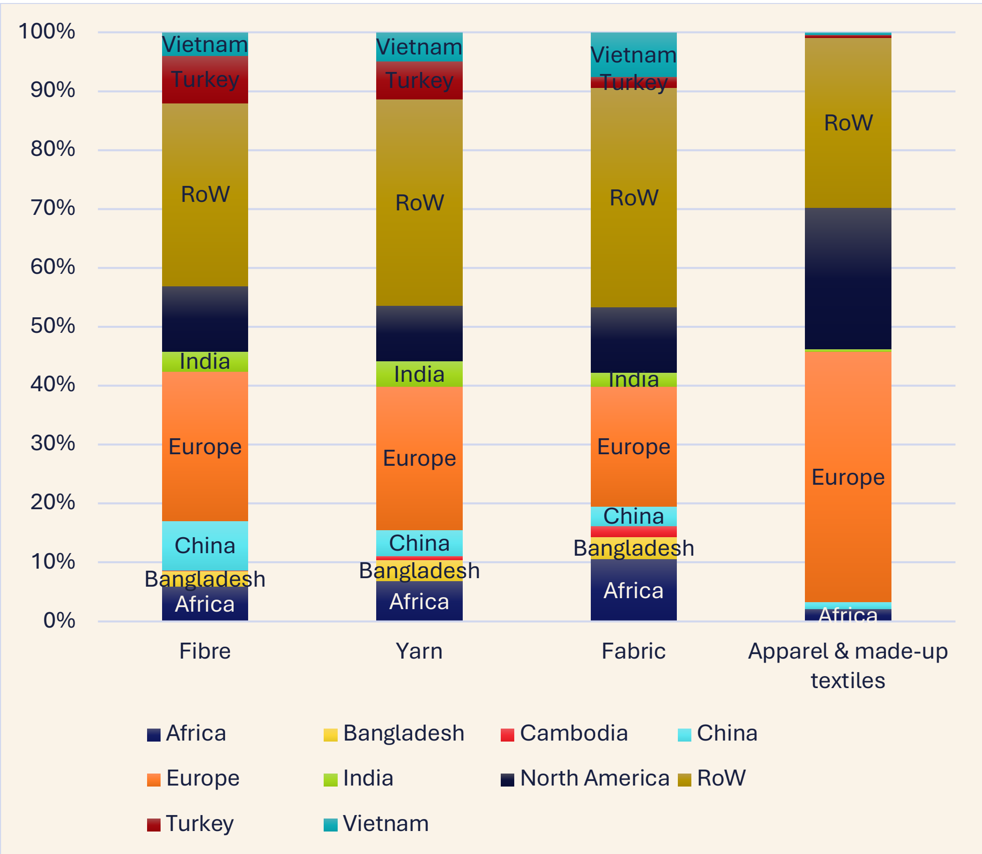
Source: CEPII-BACI reconciled trade flows

Figure 4 Share of world imports of cotton products, by country and value chain segment, average 2019–2022



Source: CEPII-BACI reconciled trade flows

Figure 5 Share of world imports of cotton products, by country and value chain segment, average 2019-2022

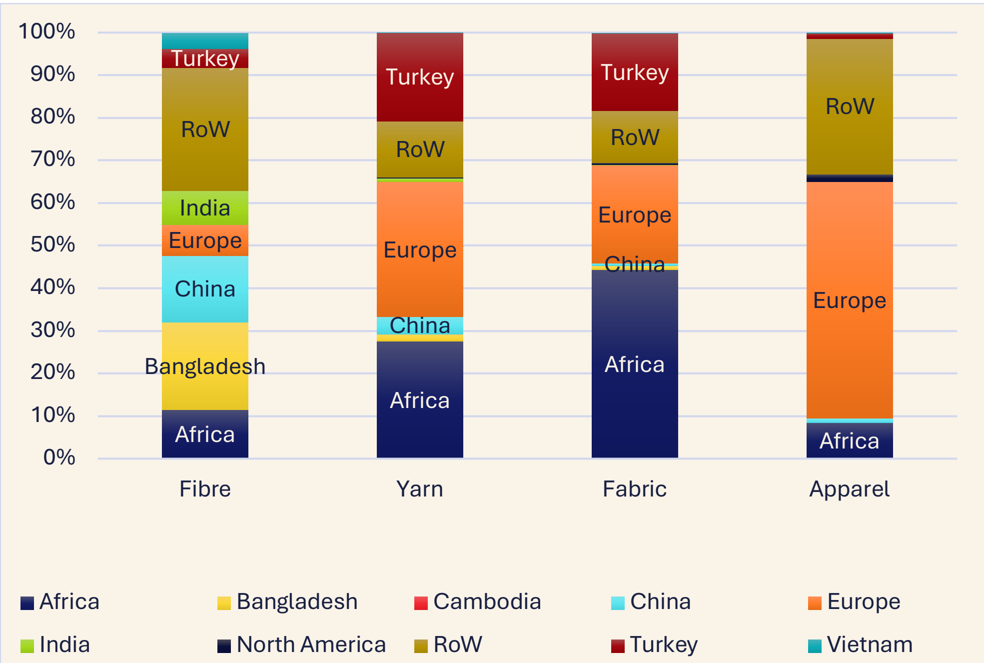


Source: CEPII-BACI reconciled trade flows

2.1.2 Value chain segment exports and imports

Figure 6 shows African textiles and apparel export destinations by value chain segment. While firms in countries like Bangladesh and China are important buyers of African cotton fibre, the limited African yarn and fabric production is mostly exported within the continent (though also to Europe and Türkiye). Europe is by far the most important destination for African apparel, mainly driven by North African exports (see section 2.2). The US has to date also been a key market under AGOA, especially for other regions of Africa (see section 2.2), though with recent political changes in the US this may change. While intra-African exports of yarns and fabric are proportionally higher than those in fibres and apparel - with examples of Uganda and Tanzania exporting yarn and some fabric to Kenya that enters into global value chains (interview) - these exports are low in absolute value, reflecting their low level of competitiveness in the international market (Whitfield, 2022).

Figure 6 Destination of Africa's textiles and apparel exports by value chain segment, average 2019–2022

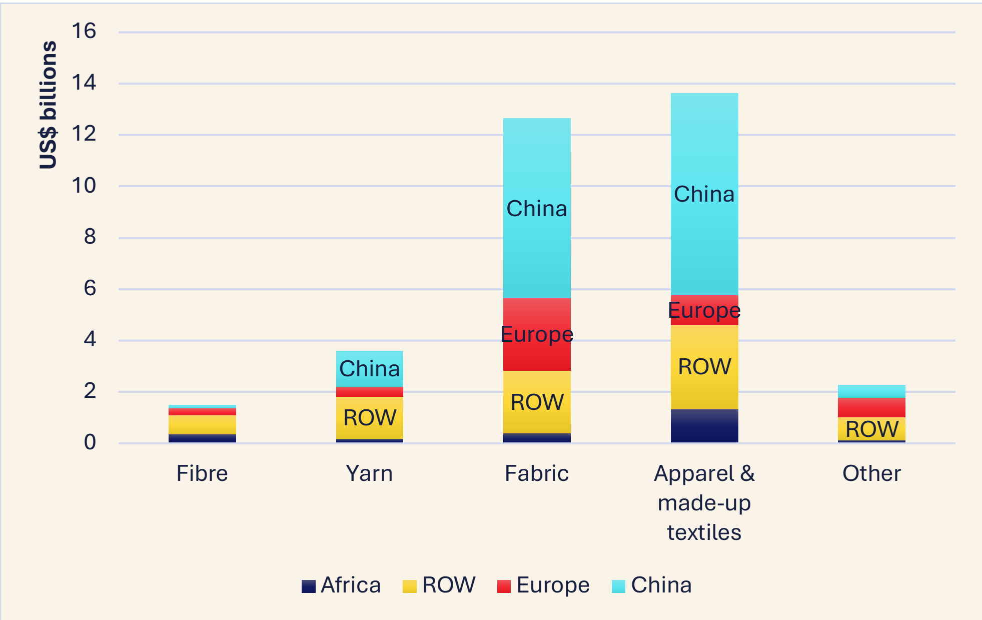


Source: CEPII-BACI reconciled trade flows

Overall, as Figure 7 shows, much of Africa's inputs come from outside the continent, especially China. This is because much of fibre production in Africa is focused on cotton, making up some 25% of global fibre consumption, while polyester, representing 54% of global fibre consumption, is largely imported from outside Africa (Textiles Exchange, 2022). According to some accounts, the absence of capabilities in man-made fibres and fabrics limits the scope for regional value chain connections. It further confirms the fact that the predominant activity in the value chain is final assembly from imported fabric. Thus, there is both a structural supply-side constraint to RVC creation due to limited capabilities in producing man-made intermediate goods, and limited scope to grow in existing cotton products.

Consequently, intra-Africa imports remain a small proportion of Africa's global textiles and apparel imports but has grown by 7.2% per year between 1995 and 2022 (CAGR), or six-fold in nearly three decades . Breaking intra-African imports down11% of imports are in fibres, 27% in yarns and 7% in apparel. In relative terms, fabric is by far the largest category of intra-African imports, making up 44% of total intra-Africa imports in the industry. According to the United Nations Conference on Trade and Development (UNCTAD) (2025), only 16 of 54 countries in Africa source some (0.5%–6%) of total intermediate inputs from other countries on the continent, with South Africa, Kenya and Nigeria acting as major suppliers and users of these value-added goods.

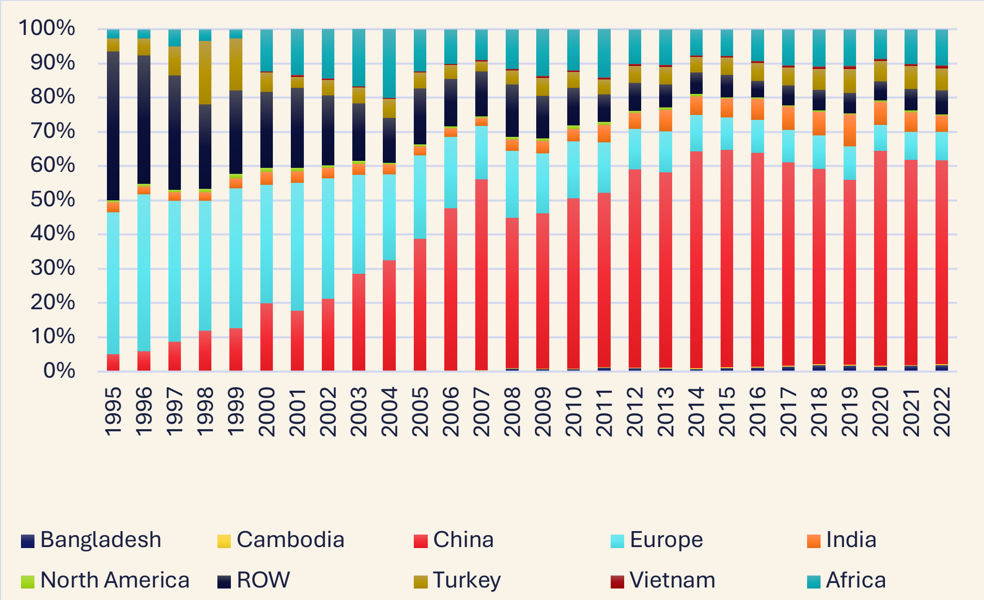
Figure 7 Share of textiles and apparel import markets supplied by African exporters, by value chain segment, average 2019–2022



Source: CEPII-BACI reconciled trade flows

Looking at the trend (Figure 8) shows not only that intra-African trade numbers have remained low, and even declined in relative terms, but also that the relevance of China has substantially increased. Whereas other African suppliers provided 13% of African total apparel and made-up textiles needs in 2022, China accounted for about 60%.

Figure 8 Source of Africa's textiles and apparel imports 2022



Source: CEPII-BACI reconciled trade flows

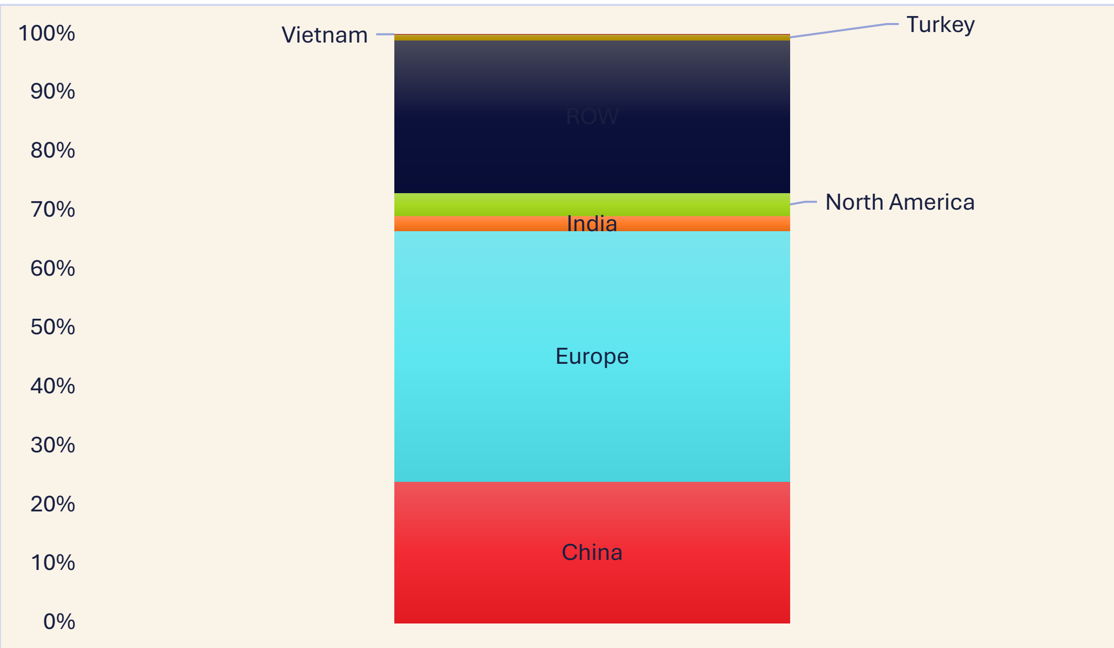
Another feature of the textiles and apparel market in Africa, with consequences for a continental RVC, is the large-scale imports of second-hand clothing Africa as a whole accounts for 30% of global imports (see Figure 9). In the same time period, the top five importers in Africa were Ghana, Kenya, Tanzania, Nigeria, and Angola, together accounting for about 40% of Africa's second-hand imports between 2019-2022. While offering affordable options to customers with limited purchasing power, some argue that these undermine the development of a local/regional textiles and apparel industry.

Imports come from different sources. Overall, Europe is the largest source of these imports (see Figure 10), though China is also a key source. While Europe accounts for about half of Ghana's second-hand clothing imports, its share in the imports of Kenya are dwarfed by China as well as others such as Pakistan and the UAE which may be re-exports from Europe after sorting (Oxford Economics 2024). A significant share of these imports is in fact textiles waste which end up in landfills.

Figure 9 Share of world imports and exports of second-hand clothing by region, average 2019–2022

Source: CEPII-BACI reconciled trade flows

Figure 10 Share of second-hand clothing exporters to Africa, average 2019-2022



Source: CEPII-BACI reconciled trade flows

2.1.3 Broad conclusions

These characteristics raise important questions in terms of the likely impact of trade liberalisation in this sector under the AfCFTA, and what it would take to bring about a continental textiles and apparel value chain.

Expanding intra-Africa apparel exports should be a goal for a continental RVC, at least in the short-term. Based on current trade patterns, models of full liberalisation suggest most gains in the cotton and human-made fibre apparel segment, with only limited impact on fibre exports. While the impact of liberalisation will be higher where there are high tariffs, mainly the middle of the value chain, as shown in this section African production in these segments is low with low competitiveness. The likely impact of the AfCFTA would therefore be in market expansion.

The AfCFTA should be leveraged to attract investments in textile production, including developing own brands. Historically, textile production, rather than apparel assembly, has contributed to industrialisation, given its far greater potential for linkages to other sectors and knowledge spillovers through technology-upgrading and innovation (Whitfield et al., 2021). Although some policymakers suggest that apparel investments will attract activity and investments further upstream in the fibre and textiles sector, this has rarely been the case in Africa even within existing regional free trade areas. Experience in other countries shows that industrial policies have played an important role in attracting textiles investments while trade policies, particularly the treatment of second-hand imports will also be important.

African countries will continue to rely on imports for some time. Even if *all of Africa's yarn and fabric exports* were redirected within the continent, this would still only satisfy 20% of current yarn import demand and 9% of fabric import demand of the continent (McLeod et al. 2022). Even with substantial investments in these capital-intensive segments of the value chain, imports from outside Africa will continue, especially for products made from made-made fibres other than cotton.

The relative impact of trade liberalisation through the AfCFTA will be low. This is because the AfCFTA seeks liberalisation in trade *between* RECs. However, trade between RECs is hindered by factors other than high tariffs, including lack of infrastructure and non-tariff barriers, among many other things. This suggests that addressing these issues is likely to bring more benefits from the AfCFTA.

While RoOs agreement is necessary to support an RVC in the sector, their design will not define its success. Other more inhibiting factors affect the development of textiles and apparel RVCs in Africa, while research by McLeod et al. (2022) also suggests that if RoO compliance costs are higher than the tariff preferences offered by the AfCFTA, firms will not use it, thus undermining any expected gains from trade. Estimates suggest that a compliance cost of 5% in ad valorem terms would reduce the effect of the AfCFTA in boosting textiles and apparel trade by more than a fifth (Ibid.).

This gets to the heart of the strategies needed to develop the textiles and apparel value chain. At the national level, some countries such as Kenya have prioritised the apparel segment first to take advantage of preferential market access (i.e. AGOA), followed later by backward integration into the textiles segments as seen in Mauritius. Others such as Benin have prioritised vertical integration in an effort to become competitive. Although discussions of how to leverage the AfCFTA are focused on RoOs, existing evidence suggests firstly that expansion in apparel production has not automatically resulted in economic upgrading into the textile sector in many African countries, and secondly that RoOs are not the driving factor, instead needing to be accompanied by other (industrial) policies to develop the sector.

2.2 Regional production and target markets

While the above continent-wide summary offers some insights, it masks differences between regions and within these countries, and their target markets. A crucial question for continental RVC promotion is how to change these current patterns to include more intra-African trade in inputs, and more targeting of African markets for own brand manufactured products.

North Africa is the largest exporter of apparel, followed far behind by East and Southern Africa, as shown in Figure 11. Exports are predominantly geared towards markets outside Africa, especially in North Africa (towards the EU) and East Africa (to the US under AGOA), though intra-African trade is a feature in Southern Africa, as discussed below.

Figure 11 Africa's textiles and apparel exports, by region and value chain segment, average 2019–2022

Source: CEPII-BACI reconciled trade flows

2.2.1 North Africa

As a region, North Africa is the largest exporter of textiles and apparel in the African continent (Whitfield, 2022). These are predominantly of apparel to the EU, particularly to Italy, France, Germany, Spain and Portugal (AfCFTA Working Group, 2024). This industry has developed over the past three decades in Tunisia and Morocco in particular, benefiting from physical and cultural proximity with Europe. Morocco has become one of the largest African apparel exporters to Spain and France in recent years though the industry is reportedly undergoing a crisis in its knitwear segment due to its overdependence on a few buyers (ibid.).

In the past decade, Egypt has also emerged as a strong player, with exports matching those of Tunisia and Morocco. It has become an attractive destination for foreign direct investment (FDI) in textiles and apparel given its strategic location (close to both Asia and Europe), its production of high-quality and low-cost cotton and the existence of high-quality domestic infrastructure and abundant human resources as part of concerted industrial policies (Agarwal et al., 2023).

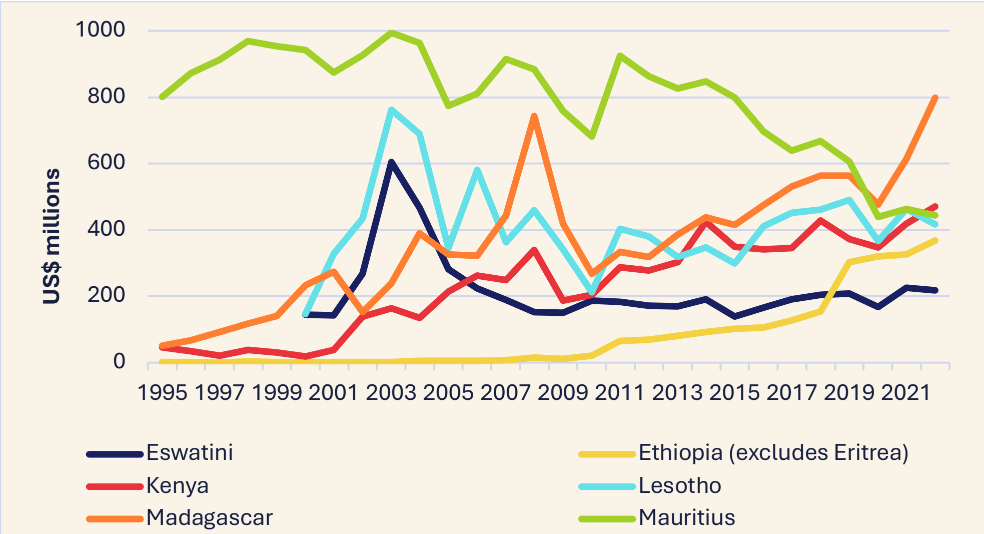
Despite being a large exporter, North Africa lacks verticality; most of the fabric used in the apparel production is imported from outside the continent mainly from Türkiye, China and European countries such as Italy, Germany, France, Spain and Portugal (AfCFTA Working Group, 2024). North African imports of intermediate textile products from within Africa, especially cotton fibre from West Africa, are high in North Africa when compared with other African regions as shown in Figure 12 below but are relatively small when compared with overall imports in the region.

2.2.2 East Africa

Although lower than North Africa, East African exports are also primarily oriented towards external markets (Figure 8), taking advantage of preferential trade regimes such as AGOA and the EU's EBA. At the same time, there are substantial differences within the region.

At a country level, as Figure 12 illustrates, Kenyan exports have been on an upward trajectory, notwithstanding the fluctuations in individual years. Apparel accounts for 80% of the total textiles and apparel exports of the country, with exports predominantly going to the US through AGOA (about 70% of the total in 2001–2022; Ashraf and Karkare, 2023). Kenya has successfully attracted FDI into the apparel sector from transnational Asian and Indian-East African investors from the diaspora. While the country has had a domestic textiles and apparel industry for many years, some cite a degree of duality in the sector between large export-oriented apparel firms and domestically oriented firms, with some degree of verticality but that struggle to remain internationally competitive (Ashraf and Karkare, 2023).

Figure 12 Apparel exports from top sub-Saharan Africa exporter countries, 1995–2022



Source: CEPII-BACI reconciled trade flows

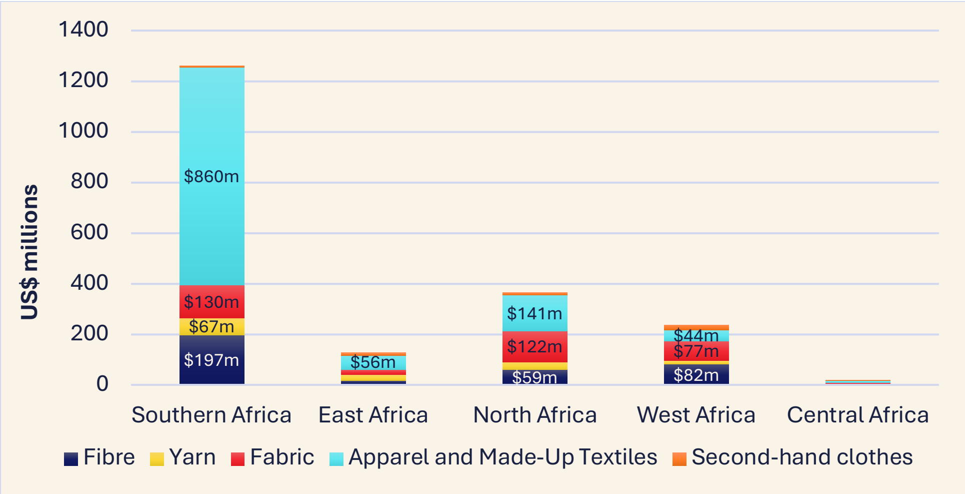
While the productivity of Kenya-based suppliers is relatively high compared with other African countries (Whitfield et al., 2021), they are considered uncompetitive compared to Asian suppliers, owing to long lead times. Given these lead times, foreign investor interest is driven mainly by the preferential market access available, especially to produce synthetic products that benefit from higher margins under AGOA (Ashraf and Karkare, 2023). With production focused on high-volume and low-margin goods, and buyers dictating factors such as price and supplies, the export-oriented apparel sector operates in something of an enclave relying on imported inputs (93%), mainly from Asia. The difficulty of integration also links to the lack of a coherent industrial policy, where investments in Kenya's textile mills are reportedly also held back by broad business environment factors including the high cost of electricity and uncertainty about political support from the government.

By contrast, the Ethiopian government's proactive and targeted industrial policy helped generate a take-off in apparel exports in the 2010s (Figure 9). Its policies included preferential trade deals, up to nine years of tax holidays, land policies and duty-free imports of machinery, equipment and construction material, all of which helped attract investors. Additionally, and perhaps more importantly, the government proactively engaged an international buyer (PVH) to convince its suppliers to move their operations to Ethiopia as part of their (buyer's) diversification strategy. In parallel to foreign-owned export-oriented firms, there was also a class of locally owned export-oriented firms, both using preferences to access lucrative external markets by using locally made export-quality fabric (Whitfield and Staritz, 2017). These efforts helped Ethiopia move out of 'cut, make and trim' (CMT) apparel production into higher value-added production. However, recent political instability has slowed down growth in the sector.

2.2.3 Southern Africa

As Figure 13 on intra-African trade flows shows, Southern Africa has the most integrated RVCs in the continent. South Africa is central to these, accounting for 30% of the overall intra-Africa imports of textiles and apparel, though these are mostly finished goods of apparel rather than intermediate goods such as fabrics (Whitfield, 2022).

Figure 13 Importers of Intra-African textiles and apparel, by region and value chain segment, average 2019–2022



Source: CEPII-BACI reconciled trade flows

In general, except Mauritius and South Africa, most countries are concentrated in low-value addition activities related to the apparel sector, with little activity in the textile sector. Two RVCs stand out. One connects South Africa, Mauritius and Madagascar; the other links South Africa, Lesotho and eSwatini.

Mauritius successfully attracted investments in the early 1980s from apparel manufacturing firms from Hong Kong and Europe, seeking to offshore apparel production. The local industry was also developed with the help of Franco-Mauritian capital (Studwell, 2022). Mauritius is the only country in the continent with fully developed vertical integration in knit, woven fabric and yarn production. Cotton imports come almost entirely from within the continent; however, cotton wear is only part of the overall Mauritian production, and imports of other fibres come mostly from Asia (Whitfield, 2022).

Mauritian firms export fabric to companies in Madagascar and were the second-largest foreign investor in Madagascar. They have outsourced labour-intensive activities to Madagascar, while keeping high value-added activities in Mauritius (Whitfield, 2022). Mauritian firms also have close relationships with South African retailers, supplying them with products produced in factories in Mauritius and Madagascar. In parallel, locally owned firms in Madagascar have also specialised in high-value products for the EU.

Apparel exports from Lesotho and eSwatini come from two separate kinds of investments – namely, Asian investors, mainly Taiwanese, seeking to access the US market through AGOA, and South African investors. The latter developed operations there to escape the restrictive domestic labour regime in South Africa, and using their existing linkages with retailers to export the products back into South Africa (Black et al., 2019). South Africa has become one of the largest investors in terms of textiles and apparel-related FDI in Africa.

Interestingly, however, regional integration in the textiles and apparel value chain has been driven by existing textile production capabilities. These is ‘no evidence to suggest that it encouraged new investments in textile production in South Africa, Mauritius or Madagascar’ (Whitfield, 2022). That is, while textile production entails more value added, expansion in the sector has been rare beyond those historical investments.

2.2.4 West Africa

Despite being the largest producer of cotton on the continent (60%) and efforts to promote expansion into other segments, West Africa, has little capacity in the textiles sector (Whitfield, 2022). As a region it comes third after Southern and North Africa in terms of intra-African textiles and apparel trade, with more fibre and fabric production than apparel. The region is overrepresented in the world’s cotton exports (15%) compared with production (5%). Most of the cotton is ginned and then exported to external markets without further processing (Oxford Business Group, 2021). There are also exports within the continent, especially to North Africa and Southern Africa. A significant proportion of the population has their clothing tailor-made using wax-printed cloth, though the fabric is imported, mainly from Asia. Only Ghana has some capabilities in apparel production for exports, though the governments of Benin, Côte d’Ivoire and Togo, along with Ghana, are adopting strategies to promote the textiles and apparel sector. Benin has started exporting apparel and supplying fabric to regional firms such as in Nigeria (interview).

2.2.5 Broad conclusions

Given the different dynamics around inputs, production and target markets, and the varying levels of RVC existence across regions, the following conclusions emerge:

A ‘continental RVC’ could build on several existing regional ones. Rather than one continental value chain, strategizing about an AfCFTA textiles and apparel RVC could be framed around different regional champions catering to the specific and differentiated production structures and demand across regional markets. As an illustration, South Africa is already a major market for regionally produced apparel, with a key role played by its retailers, while also being a strong investor, especially in Lesotho and eSwatini. At the same time, South Africa's domestic textiles – with spinning, weaving and knitting facilities – is geared domestically, and more for home textiles, upholstery, non-garment tents and other industry inputs, for which it depends on inputs from Asia, rather than Africa. Similarly, for apparel production, whether for domestic or export markets, the focus is on synthetic, polyester or polyblends, which are cheaper than cotton and more durable (Whitfield, 2022). Mauritian investments in Madagascar is yet another example of how capabilities can be developed to generate positive spillovers.

A continental RVC should prioritise a) building globally competitive capabilities while b) maximising intra-Africa trade and c) focus on African markets when possible. It is key for African firms to collaborate with foreign firms to access the latest technology and become competitive by insisting on knowledge transfer. While some countries have achieved this in the apparel segment, this is yet to happen in the textiles segments. This would help improve verticality and the emergence of firms who can further invest in other African countries.

The development of the textiles value chain in turn needs investments in other natural fibres and man-made fibres where there are currently no capabilities. In terms of maximising intra-Africa trade, there is an important role for Africa-based or Africa-focused brands and retailers in marketing African products both within and beyond Africa (see section 2.3). With regards the African market, while large in terms of population (1.4 billion people), it is small given the low purchasing power of its consumers. Exports will therefore remain an important pillar of the development of the textiles and apparel value chain. In practice, a strategy of hub-and-spokes, as observed in the case of Southern Africa, could emerge in other regions, geared towards the external and/or the regional market.

There is scope to increase the share of intra-African production in the African market. The significant level of imports from Asia suggests there is vast untapped potential for intra-Africa trade which can be driven by regional champions. This is currently demonstrated by South Africa in the case of apparel. However, African firms will switch from Asian to African suppliers only if it makes commercial sense i.e. new suppliers provide price and quality that is on par with international ones. Moreover, existing capabilities - such as intensification of fast fashion in Morocco for exports to Europe; local Malagasy firms' orientation towards high-value products for the EU; or Kenya's production of synthetics for the US market, mean that the shift from these markets to intra-African trade may not be straightforward. Costs of production, differing standards, labelling requirements and networks for marketing, among other things, all will take time to adjust to the export market.[5]

2.3 Heterogeneous textiles and apparel firms

The current landscape of African textiles and apparel also relates to the types of firms in the sector, their investment origins and ownership. Further reflection on these aspects helps us better understand the interests and incentives around creating a more continentally focused textiles and apparel RVC.

FDI and joint ventures with foreign firms bring with them access to technology and better organisational capabilities. Though there are differences in country experience – firm capabilities in Lesotho are much more limited compared with those of eSwatini (these firms, mostly owned by Taiwanese investors, also managed to target the South African market once eSwatini was excluded from AGOA). Morris et al. (2014) highlight how ownership of supplier firms has an impact on the extent to which firms are able to switch end markets, and their level of embeddedness has an impact on the kind of upgrading they seek. These are explained below.

FDI has played a key role in shaping the existing African textiles and apparel landscape, in line with what has been observed in other countries. In particular, foreign investors have sought to take advantage of preferential trade schemes for African producers selling into advanced economies, e.g. AGOA. In Kenya, export-oriented firms owned by foreign investors are mostly active in export-processing zones. Currently most FDI firms have limited linkages with the rest of the economy, in large part due to an underdeveloped local supply chain. Consequently, most inputs come from outside, especially Asia. Typically, investor interest has been driven by market access through preferential trade regimes, which is temporary by nature, with limited links to investments in textiles that would create opportunities for linkages and spillovers to pave the way for industrialisation.

An exception to this general trend is Ethiopia, where the government, through active industrial policies. They provided the necessary services through SEZs – specifically industrial parks – to catalyse the development of upstream textiles production (Jensen and Whitfield, 2022). Another interesting model of SEZ development is being piloted by ARISE in partnership with different governments, including in Benin and Togo (Box 2).

[5] The entire process of changing buyers and export destinations – i.e. the firm sends samples and these are approved after tests are carried out and validated, only then to be followed by purchasing orders and sourcing of inputs from different places and so on – can take up to three years.

Box 2 SEZs and the ARISE model

Under the AfCFTA, SEZs can create opportunities for access to market, to lower-cost and higher-quality inputs, and to engage in emerging RVCs on the continent. Although these benefits are contingent on how RoO are designed, SEZ production under the AfCFTA will benefit from tariff reductions.

ARISE- Integrated Industrial Platform (ARISE), originally a joint venture between Olam (which later divested) and the African Finance Corporation (AFC), is a SEZ-developer. They have entered public-private partnership (PPP) arrangements with the governments across multiple countries to attract investments, including in the textiles and apparel sector. In Benin, ARISE also operates factory sheds, and has directly invested in textile mills with similar plans in Togo (interview).

SEZs are considered a key component of the general trade and investment framework across Africa. In a context where economy-wide provision of public amenities and infrastructures is a challenge, they are an efficient way of providing these in a concentrated and coordinated manner. Different designs exist, with differences, for example, between the Ethiopian model of industrial parks and the ARISE model. Ethiopia's eco-industrial parks, which provide state of the art services and equipment, were state-funded-and-managed (though built by Chinese construction firms), and were developed after extensive consultations with the buyer and suppliers allowing for environmental upgrading and vertical integration as part of its industrialisation strategy (Jensen and Whitfield 2022). On the other hand, ARISE-IIP leads the construction, operation and management of the park, so that foreign investors focus on textile investments and production.

While this approach avoids the government taking on all the risks, as was the case of Ethiopia, and though working with governments helps to infuse a business mindset in public planning, some cite a risk that the design of the park does not entirely correspond to the needs of the eventual investor. Moreover, ARISE's business model, based on their power to design, operate and manage SEZs with access to land and the high-level support of the government, may only be suited to limited contexts where issues over land and other amenities can be pushed through or quickly overcome. Olam's existing cotton business in Benin arguably makes the organisation of a cotton supply chain for textile production before exporting more feasible given its established networks. It is unclear whether this will be the case in other settings such as in East Africa. Nevertheless, ARISE-IIP's projects have seen success in making regional connections, where an established Nigeria apparel firm is importing inputs from ARISE-IIP's Benin park.

Regional investors have emerged as a major driver of the textiles and apparel value chain, especially in Southern Africa. These include Mauritian firms setting up subsidiary operations in Madagascar. Initially geared towards exports to the EU, these firms eventually expanded to the South African market for exports, as products were comparable (Whitfield, 2022). Another source of investments has been South African businesses, as mentioned above. In both these cases, duty-free access to the South African market under the Southern African Development Community (SADC) free trade area (FTA) was a major pull factor to expand regionally. It is important to highlight that these existed alongside, rather than instead of, value chains where firms were geared towards the external market. This reaffirms the point made above that different (regional) value chains coexist depending on the end market and the type of product.

For domestic markets, a vast majority of firms are locally owned, with indigenous investors. In East Africa, especially Kenya, Uganda and Tanzania, these include Asian-African owners, usually owning a single operation geared towards the domestic market or subcontracting for larger firms. Nonetheless, there are cases of successful scaling-up from domestic to the regional level. For instance, diaspora investors in Mauritius through the Franco-Mauritian business elite (Studwell, 2022) and Madagascar (Whitfield and Staritz, 2020) successfully managed to break into export markets using historical, cultural and other linkages.

Beyond the above types, retailers such as Woolworths have also been key in generating *demand* for African textiles and apparel products. Their large market power can be leveraged to develop supplier capabilities and thus could play a key role as RVC drivers.

While distinguishing firms this way helps understand different commercial interests and goals, groups are not always discrete. Rather, they overlap, with potential differences from one country to another. For instance, while the Mauritius textiles and apparel sector is made up of dynamic indigenous firms expanding into the regional market (becoming regional investors),[6] in Kenya indigenous firms often function as subcontractors to foreign-owned export firms, with limited crossover between the two. In countries such as Lesotho or eSwatini, there are very few indigenous firms (Morris et al., 2014).

Understanding different investment types and how they connect to the textiles and garments value chain and target markets, will be important for thinking continental RVC connections. In particular, how firms operate within their specific political economy

[6] Mauritius had the most textiles and apparel firms in Africa in 2019 (131 firms), of which 97% were locally owned (Agarwal et al., 2023).

contexts is likely to shape the possibilities available for connecting input and output markets.

2.4 Value chain political economy features

2.4.1 Textile and apparel GVC

The textiles and apparel global value chain (GVC) is generally considered to be buyer-driven, thus helping explain many of the characteristics seen above. There are a limited number of buyers or lead firms driving the distribution of productive activities and investment decisions within the value chain (Gereffi 1994 further explained in Gereffi et al. 2005; Whitfield et al. 2021). This implies a substantive power asymmetry between the (few) buyers and (numerous) suppliers, with evidence of barriers to entry, control of rents, and the branding of high value products resulting in a ‘supplier squeeze’, where suppliers face declining unit prices in real terms, even as the cost of compliance rises (ibid.).[7]

Until now, the general trend has been for firms to insert themselves in the GVC and work with foreign firms. This allows access to modern technology to become internationally competitive and specialise and access lucrative international markets such as the US or the EU. While this may be changing with recent disruptions to trade preferences, the trend towards ‘nearshoring’ and rising production costs in East Asia, the overall dynamics will still be buyer-driven. This is further discussed in Box 3.

Box 3 Lessons for the AfCFTA from the Asian experience

While the AfCFTA seeks to provide a framework to support development of a continental textiles and apparel RVC, ultimately it is private firms that will make it happen, and they will only do so when it makes commercial sense.

As Whitfield et al. (2021) show, lessons can be drawn from the Asian experience on how regionalisation takes place. With quotas on Japanese exports, US importers began sourcing from Hong Kong, South Korea and Taiwan in the 1960s and 1970s. In parallel, Japanese manufacturers, also in search of lower production costs, began setting up and buying existing apparel factories in neighbouring countries, exporting textiles for assembly there before

[7] There are different kinds of lead firms. For instance, mass merchants (e.g. Walmart) sell a diverse array of products and specialty retailers (e.g. H&M) sell only apparel items, though both do not own their manufacturing facilities and license final products with their own branding. Brand marketers (e.g. Nike) outsource their production by providing detailed garment specifications, and suppliers manage the entire process: materials, production, finishing and distribution. Brand manufacturers (e.g. Zara), on the other hand, are actively involved in manufacturing and directly coordinate inputs required for production (Gereffi and Frederick, 2010). For African countries, first tier foreign suppliers seem more relevant to engage with for building technological capabilities, as they are the direct investors, though they depend on recommendations of buyers (Whitfield, 2022).

exporting to the US. These partner countries, through industrial policies, also encouraged vertical integration and economies of scale and scope.

The next generation of exporters was countries such as Indonesia, Thailand and Vietnam, which emerged in the 1980s and 1990s and managed to build a substantial share of local apparel firms that now dominate exports. However, they had limited industrial policies to support firms to move into design, branding and marketing, except in Vietnam. Rather than through the development of clusters, textiles production in these countries is undertaken by vertically integrated firms.

With rising wages, firms (foreign as well as local) are moving from these countries to cheaper destinations where labour laws and their enforcement is weak. Today, the Association of Southeast Asian Nations (ASEAN) FTA has resulted in a regional production network, where low-income countries like Cambodia, Laos and Myanmar provide cheap labour, and firms in higher-income countries such as Indonesia and Thailand organise higher value-added marketing, merchandising and production of fabrics.

What the above experience of Asia's 'flying geese model' shows is that, first, the seeming power asymmetries associated with GVCs also exist in RVCs. Second, the success of industrial policies in East Asian countries like South Korea and Taiwan that led to rapid economic growth and development contrasts with the somewhat failed attempts in the Southeast Asian countries, for several reasons, including state–business relations (see Studwell, 2014 for more). Third, and more importantly, the development of regional production networks was the result of firm-level decisions to find cheaper sources of production, combined with the proactiveness of industrial policies to develop a base of local supplier firms. As policy-makers seek to develop a textiles and apparel RVC through the AfCFTA, expectations of a policy-led initiative to achieve this should be managed against the experience of buyer-driven decisions observed in other regions and in Africa itself.

Importantly, exports to external markets such as the US or the EU emerge as a better predictor of success in regional exports than vice versa (Mensah and van Biesebroeck, 2023). This is in line with the experience in Asia. This could be because firms access technology and demand through GVCs, giving economies of scale, and are exposed to global competition and best practices, while building regionally to go global does not offer the same learning process (Ibid.). At the same time, there are instances of firms in countries like Bangladesh and China initially producing for foreign brands and eventually successfully promoting their own brand in the domestic market (Whitfield et al. 2021).

Products made and activities performed in GVC operations, with quite specific requirements, may not initially meet the needs and demand of the local/regional market. Firms can eventually export to the region as they gain advanced capabilities and can produce differentiated products (Mensah and van Biesebroeck, 2023). This was observed in the case of Mauritius, where diversification into the regional market, driven by low prices in the EU to which Mauritian firms supplied high-value products. This meant adapting the product to match demand, particularly in South Africa, of low-cost high-volume basic products at low price (Whitfield, 2022). With time, Mauritian firms retained the highest value activities in Mauritius while outsourcing the labour-intensive activities to Madagascar to supply to the South African market successfully. These developments eventually resulted in an RVC as mentioned in section 2.2 above There are, however, only few such examples in Africa's textiles and apparel sector where firms have successfully adapted, however.

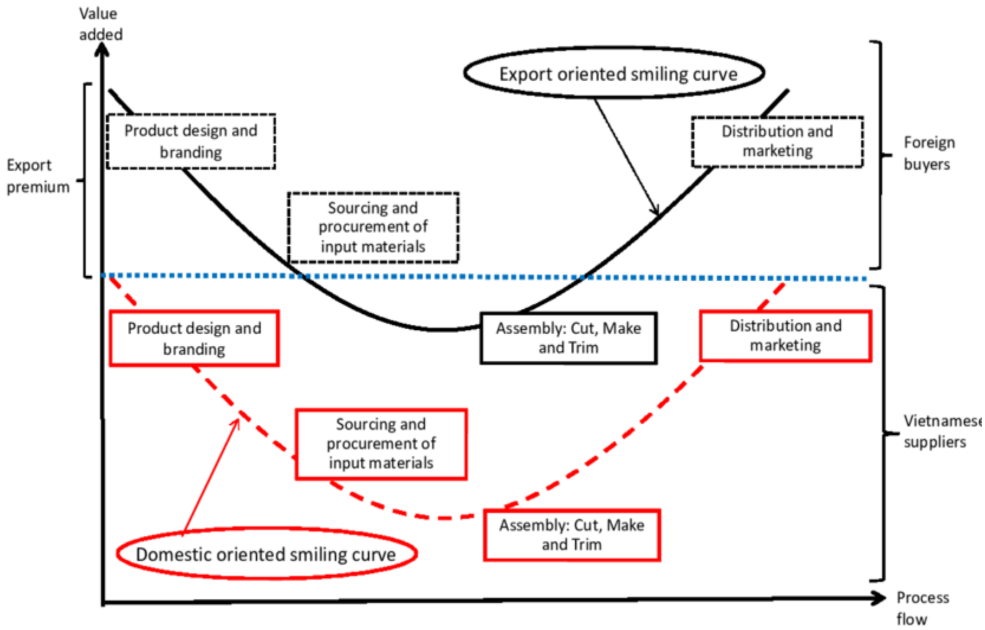
More generally, lead firms normally control higher-value-added activities such as product design and distribution, outsourcing other activities such as apparel assembly to developing countries, as shown by the U-shaped curve in Figure 11.[8] Smart industrial policies are therefore necessary to facilitate technology and knowledge transfer, as has been shown elsewhere but proved a challenge, for example in the case of Kenya and others above. These capabilities, especially by expanding into textiles, can bring about the development of the sector through the generation of industrial clusters with linkages to one another, or vertical integration.

But as Figure 14 also shows, localisation is associated with low profit margins (though highlighting the case in Vietnam, this is applicable in the case of African countries too). This may explain why there is often an observed duality in the textiles and apparel industry between:

- **foreign-owned firms dominating exports** through (more profitable) preferential market access (e.g. through AGOA) but engaged in low value-added apparel activities, such as CMT with a high proportion of imported inputs (up to 93% in Kenya), and
- **domestic firms with a greater presence in the textile sector**, though uncompetitive and unable to provide inputs to exporting firms, often operating well below their capacity owing to challenges of inconsistent cotton supply, financial constraints, high electricity prices, expensive transport and logistics, among other things.

[8] In apparel assembly, suppliers are primarily compensated for labour costs with low skills intensity.

Figure 14 Functional hierarchy in textile-apparel production and distribution – the smiling curve



Source: Goto (2012)

To build local export capabilities and higher productivity, domestic/regional firms need to acquire technical, organisational and managerial skills over and above formal education or tacit knowledge. This requires investments in learning and accumulation of experience. Industrial policies can provide such opportunities for learning by doing. However, experience with industrial policies so far has been mixed at best. Beyond ideological questions (e.g. 'the state should not pick winners'), successful industrial policy outcomes generally rely on an alignment of state and business interests, sometimes linked to rent creation and distribution, thus requiring a better understanding of broader state–business relations as they relate to the sector.

2.4.2 Textiles, apparel and state–business relations

State–business relations clearly also shape the space for promoting and expanding a continental textiles and apparel RVC. Though this refers to any kind of cooperation between businesses and state agencies, ranging from formal, regular coordination to informal and ad hoc interactions, state–business relations can also imply rent-seeking from both sides, and capture of specific policy processes or institutions for particular and narrow interests. But, as te Velde (2010) discusses, effective state–business relations can help address market failures through improved coordination by using scarce state resources more efficiently and reduce policy uncertainty by ensuring buy-in from all sides through credible commitments (on both/all sides).

One challenge for thinking regionally is that national political priorities often dominate regional ambitions. South Africa recently approved a textiles and clothing masterplan (DTIC, 2024), focused on domestic firms and replacing imports rather than RVC promotion, with no mention of the AfCFTA. Similarly, in West Africa, policymakers at the national level are more inclined to pursue vertical integration at their respective national level rather than building synergies through vertical integration across the broader region. Similarly, despite the EAC's potential for a textiles and apparel RVC connecting Tanzanian and Ugandan cotton and textiles production with Kenya's apparel hub, there are few instances of regional sourcing. While this is understandable from a perspective of domestic politics and the need for jobs, it potentially undermines the stated AfCFTA objective which these governments have also ratified, of promoting a continental RVC for the sector.

In other countries, export-oriented firms operating in SEZs often receive more policy attention. Foreign exchange generation and job creation are both politically salient, giving them political prioritisation. Building technological capabilities for increasing regional trade or upgrading the value chain, while a noble objective, has less political salience, and thus is overlooked in the interest of these other, more pressing, objectives. For instance, in Kenya, firms operating in the export processing zone account for about 10% of forex and 40,000 jobs, while local firms, even if they have the *potential* for vertical integration and further development into the textile sector, struggle to get the government's attention (Wolff, 2020). In the absence of political guidance to make regional linkages, the Ugandan industry is currently geared towards the internal market, mostly the public sector (e.g. police uniforms; Behuria, 2021), despite incentives for local spinning (50% subsidy on energy costs) and resultingly its potential to become a regional supplier of yarn or fabrics to Kenya and Tanzania, given domestic incentives. Indeed, Behuria (2021) highlights the use of domestic procurement contracts as a political tool to promote politically aligned firms, underlining the need to look further into what shapes policies and their implementation.

2.4.3 Rents space

The way state–business relations play out in the sector and in specific countries can be discussed in terms of what Pritchett et al. (2017) call the 'rents space'. In this approach, rents, defined as excess earnings beyond reasonable production costs, are created as a function of the political settlement[9] – the horizontal (among elites and ruling factions) and vertical (between elites and broader population) distribution of power in a society – and economic

[9] These are 1) 'Competitive clientelism' (competition between multiple factions, leading to short time horizons focused on political survival than long-term development), 2) 'Weak dominant party' (greater stability than competitive settlements but risk if dominant group weakens or opposition emerges), 3) 'Vulnerable authoritarian coalition' (initial enforcement of learning likely to be overthrown by opposition), and 4) 'Potential development coalition' (low opposition, stability of ruling coalition, long time horizon)

opportunities. This suggests a distinction between export-oriented firms and domestically oriented firms, and between those subject to competition and those protected through regulatory barriers to entry and competition. Four emerging possibilities form 'the rent space'.

Table 1 The rents space typology of private sector firms

	High rent	Competitive
Export-oriented	**Rentiers** Natural resource exporters	**Magicians** Manufacturing and services exporters, other agricultural exporters
Domestic market	**Power-brokers** Legislative monopolies or oligopolies, natural monopolies or oligopolies	**Workhorses** Traders, retailers, subsistence farmers, the informal sector

Source: Pritchett and Werker (2012)

Exporters of textiles and apparel to the world market are subject to global rules and competition. These are therefore categorised as 'magicians', operating in challenging circumstances yet remaining competitive in world markets. Although these firms benefit from market access and are politically important for the employment and foreign exchange they provide, they are generally not political 'players', unlike firms in major rentier sectors such as mining. Even where SEZ models offer some government support, access to land and infrastructures, this is generally to allow them to operate in such competitive international markets, generally with relatively low political influence. While Kenya and Ethiopia's export processing zones approach emerged as pockets of efficiency, resolving the problems of investors to encourage their presence, these were again based on market access. This also reflects the general challenge of working with 'footloose' foreign firms who can threaten to pack up and leave, rather than accepting disciplining measures to ensure learning for productivity (Tyce 2019).

But more explicit rent opportunities often arise through protection and specific market opportunities within domestic markets. Domestic public procurement contracts are often used to reward political support. Though 'power-brokers' normally refers to domestic firms enjoying regulatory rents, domestic firms working to fulfil government procurement (e.g. in Uganda, Behuria 2021) brings similar features as they do not have to face competitive pressures. In Uganda, procurement contracts have alternated between domestically oriented firms and export-oriented firms in Uganda according to political alignments instead of being used to promote domestic production and value addition through learning for productivity as they might have been. This in turn reflects the wariness of political leaders to promote new domestic capitalists for fear that they could later become a political threat. Beyond these, smaller indigenous, single-operation firms working as subcontractors to suppliers (e.g. in Kenya) can be regarded as ‘workhorses’ with little political influence.

The rent space and incentives for long-term investments are also shaped by other factors. The East African Community’s (EAC’s) pledge to phase out used clothing imports to promote local/regional textiles and apparel industry failed because of external dynamics as much as domestic ones. As Wolff (2020) explains, the US Trade Representative threatened to revoke AGOA benefits in response to the ban as it risked harming the interests of US exporters of foreign used clothes. This reflects the prioritisation of US exporters’ interests over the stated development objective of AGOA – to facilitate value-added exports from Africa into the US. On the domestic side, given the influence of export-oriented firms, the conversation quickly turned into how to maintain exports under AGOA rather than how to avoid second-hand imports. Moreover, a powerful group of second-hand importers successfully argued that they in fact created more jobs than the domestic manufacturers. This shows that short-term job creation and foreign exchange generation often emerges as more politically important than the long-term goal of economic transformation. With politicians wary of public backlash, the ban was overturned.

To promote a continental RVC, it will be important to understand where firms fit in terms of the political and economic interests around RVC ambitions, but also their relations to the state in terms of the rent space in each specific country.

2.5 The RoO issue

Despite the range of issues cited above, RoOs have been the main topic of discussions under the AfCFTA because of the way these have been blocking negotiations.[10] The contentious nature of the RoO negotiations reflect the complexities of the sector, varying existing target markets, and different economic and political ambitions for the sector. In broad terms, countries in West and Central Africa favour general RoOs similar to those in East Asia, whereas Egypt, Kenya and South Africa advocate for product-specific RoOs (AfDB 2019).

RoOs in the AfCFTA are viewed in two distinct ways (Box 3). For some governments, they are a way to protect existing sectors and promote industrialisation. That is, they prevent ‘trade deflection’ by encouraging investment in domestic manufacturing and local value creation on the continent in order to benefit from preferences[11] In this

[10] RoOs are defined in the International Convention on the Simplification and Harmonization of Customs Procedures (the Kyoto Convention) as, ‘The specific provisions, developed from principles established by national legislation or international agreements applied by a country to determine the origin of goods’ (Annex D, currently Annex K to the Revised Kyoto Convention).

[11] Trade deflection occurs when goods are redirected through a preference-holding country to obtain preferential treatment

view, RoOs are intended to promote the value addition of African commodities within the continent and should be suitably crafted to safeguard the African market (Mofo and Ismail, 2022). Thus, the AfCFTA RoOs should encourage investment and promote transformative industrialisation by enabling the growth of RVCs across several parts of the value chain, including textiles and apparel (Mofo, 2024).

The competing view is that strict rules have not led to such investment and simply represent a restriction that leads to low preference utilisation. That is, they can also serve as NTBs, imposing domestic production requirements that discourage firms from investing , thus undermining the overall goal of promoting industrialisation through trade.

Box 4 Determining the country of origin of goods

There are two basic criteria to determine the country of origin of goods. These are wholly obtained criterion and substantial/sufficient transformation criterion. In the textile value chain, wholly obtained goods are usually naturally occurring fibres. Substantial/sufficient transformation can be expressed through a criterion of a change in tariff classification, a criterion of value added (ad valorem percentages) or a criterion of manufacturing or processing operations (technical requirement).[12] These basic rules are used in combination with each other or as standalone criteria.

Consequently, countries and firms require that these rules must balance being stringent yet flexible. They must grant meaningful preferential market access to African products while minimising the potential for transshipment from third countries with minimal value addition. The challenge is to formulate clear and enforceable RoOs by customs authorities on the continent that offer certainty for traders without imposing excessive burdens on firms seeking to access these preferences. Additionally, the RoO should promote investment, particularly in the high-value addition sectors of the value chain, like branding and design, and the cost intensive aspects, such as textile mills for human-made yarn, fibre, and fabric.

The negotiations are partly complicated by differences between the RoOs of existing RECs free trade areas (FTAs) that continue to function under the AfCFTA. These rules were also negotiated but reflect the levels and forms of production in each region, discussed above, and the target market of the firms and the types of firms located within the regions. The Common Market for Eastern and Southern Africa (COMESA) has a general RoO based on a change in tariff heading rule for textiles, with some exceptions:

[12] Other rules include de minimis value addition, which allows a specific share of the value or volume of the final product to be non-originating without the final product losing its originating status; and minimal operations or processes, which identifies processes that do not by themselves confer origin.

- For cotton fabrics and goods of heading 61.17, a change in tariff heading rule applies except for specific categories, or if the c.i.f. value of imported materials used in the production does not exceed 60% of the total cost of the materials used in the production of the goods.
- COMESA also uses a value-added criterion, requiring that the value added resulting from the production process accounts for at least 35% of the ex-factory cost of the goods (COMESA, 2021).

In contrast, and akin to the current negotiating position of South Africa in the AfCFTA, the SADC has product-specific RoOs. The rules for textiles are relatively strict:

- The double transformation rule requires two stages of production to occur within the region, such as yarn to fabric and fabric to garment.[13]
- These rules were influenced by South African producers focused on domestic markets, making them challenging for many regional producers to satisfy.

Economic Community of West African States (ECOWAS) RoOs are uniform across products, according to the Supplementary Act on RoOs (ECOWAS, 2018):

- Wholly obtained products consist of textiles entirely produced within ECOWAS from locally sourced raw materials
- Substantial transformation requires textiles to undergo sufficient processing or transformation within the community to qualify as originating. This is often determined by a change in tariff classification at the subheading level or meeting a minimum of 60% local content requirement. There is a value-added requirement of at least 30% of the ex-factory price minus taxes. This rate is set at 35% for printed cotton fabrics under HS52.
- Regional cumulation allows inputs from any ECOWAS member state to be combined to meet the origin requirements. There is a minimal operations threshold to determine what qualifies as ‘sufficient processing’. Basic operations such as packaging or assembly do not confer originating status.

These differences lead to very different starting positions in AfCFTA RoO negotiations. As the result of past regional negotiations, they inherently reflect the differing positions of, on the one hand, countries that seek to avoid undermining already developed industries and, on the other, those that seek to climb the value addition ladder, relying on access to the larger market the AfCFTA offers. They also inherently reflect the political weight of

[13] These RoOs, modelled on the EU–South Africa free trade agreement, are very difficult for most producers in the region to satisfy, since they were mainly influenced by producers in South Africa that are focused on domestic markets (Brenton et al., 2005)

hegemons within each region, as the case of South Africa in SADC suggests.

2.5.1 Single vs double transformation - who and why…

A key aspect of the strictness of AfCFTA RoOs is in terms of the required transformation steps. This is generally resumed by the opposing positions of those advocating for single versus double transformation as a requirement to be considered an originating product (Mofo, 2024). Single transformation, which requires one major manufacturing process in the country of origin, would allow greater reliance on imported inputs while exporting to the AfCFTA market, thus favouring those countries currently operating at one stage of the value chain.

The simpler requirements of the single transformation rule can be especially advantageous for low-income countries. The single transformation rule allows them to engage more actively in global trade by reducing obstacles to entering manufacturing and export sectors. As discussed above, several African countries have taken advantage of single transformation rules to expand their exports using preferential trade agreements, especially under AGOA (see the cases of Lesotho, eSwatini, and Kenya). Countries currently in favour of single transformation rules in the negotiations are those that have the capacity to utilise their abundant resources in human capital, cheap electricity costs, existing investments and linkages to global markets to promote their apparel sector. Countries like Kenya, Ethiopia, Botswana and Namibia support the adoption of single transformation rules. This would allow them source inputs from outside of the continent, mostly from Asia, for their industries.

In contrast, double transformation is argued to stimulate industrial development by promoting more manufacturing investment (especially into higher-value goods) and encouraging backward and forward linkages to other sectors in the economy. Double transformation would require two processing or manufacturing processes to occur within the region for a product to be considered ‘originating’, arguably encouraging greater investment into the continent to meet this requirement. This leads to more job creation with benefits for other sectors, such as services (Mofo and Ismail, 2022). However, these investments would most likely occur if there were other, complementary, policies in place to support the RoOs - in the case of SADC, investments have not been evident across all countries despite the double transformation rule, while some countries have not been successful in encouraging new investments (Whitfield, 2022). South Africa is one of the main proponents of the double transformation rule, in order to support value addition within the continent and promote investments within the sector. Other countries like Morocco and Egypt already apply double transformation rules in most of their trade with the EU and as such would not be overly burdened by the adoption of double transformation rules in the AfCFTA.

Box 5 Single, double and triple transformation

Single transformation requires that a product must undergo at least one major manufacturing process in the country claiming its origin.

Double transformation requires that the fabrics used in apparel production should generally be sourced from the region (FTA partners), though yarns used in textile production can be imported from anywhere globally.

Triple transformation stipulates that the yarns used in textiles must specifically be sourced from the region (FTA partners).

The RoOs to export under AGOA and EBA significantly impact textile trade and production in Africa. AGOA allows for single transformation rules for least developed countries (LDCs), meaning apparel can be made using fabric originating anywhere in the world. Non-LDCs like Gabon, Seychelles and South Africa must comply with more stringent rules, typically requiring the use of US or African fabrics. EBA requires double transformation for a product to be deemed an originating good, making this more restrictive than the provisions under AGOA.[14] Firms exporting from North, East and Southern Africa have used these RoOs to enhance their domestic productive capacities, build resilience and adaptability in these sectors and integrate into global value chains.

Beyond this, some ask if there is agreement on what single or double transformation is. The precise definition and implementation of single transformation rules may differ depending on the particular trade agreement or preference scheme. Given the complexity of the value chain, which varies according to specific products, with many different transformational phases, some experts argue that RoOs are not a perfect instrument to determine domestic content (Tsowou and Davis 2021). This aligns with wider concerns about the administrative capacity to enforce complex RoOs where customs officers would be required to enforce rules on quite subtle distinctions between otherwise similar products.

Strict RoOs can also function as trade restrictive NTBs (UNCTAD, 2019). As discussed above, previous research for the AfCFTA Secretariat specifically focusing on RoOs has shown that more restrictive RoOs can increase the cost of compliance and exert a significant burden on firms (McLeod et al. 2022).

The example of apparel production development in Lesotho and eSwatini reflects how different political and business influences

[14] The Economic partnership agreements (EPAs) allow for regional cumulation to confer originating status. (E.C. n.d)

helped attract foreign investments – in this case competition with China (through South African quotas) and market access to South Africa – (Whitfield, 2022), while in Malawi and Tanzania, despite the double transformation rule, investments did not significantly rise, given NTBs and other challenges (ibid.; Boys and Andreoni, 2023).

At the same time, stricter RoOs are a key factor in the low preference utilisation rates of many African FTAs. More restrictive rules of origin often lead to higher compliance costs for businesses, resulting in low preference utilisation rates by firms (Cadestin et al 2016). Data from Mozambique show that the preference utilisation rate for imports from SADC in 2013-2017 was only 36% of eligible imports while only 7.2% of eligible Mozambican exports to SADC member states were traded under the SADC Protocol on Trade in Goods (Byiers et al., 2023). Firms generally apply RoOs and use trade preferences when the advantages of trading under an agreement – primarily assessed by the preference margin – outweigh the costs associated with meeting RoO requirements. Therefore, it is important to create rules that effectively prevent the transshipment of products with minimal regional content without becoming overly complex or restrictive. This reflects the idea that for all countries to fully benefit from the AfCFTA, it is necessary that RoOs guarantee inclusivity and wider involvement, particularly for Africa's smaller and weaker nations (Mofo and Ismail, 2022).

Strict RoOs can help promote the development of regional value chains, aligning with the concept of 'developmental regionalism.' This approach would, however, need to be balanced against the realities of the industrial capacities within the continent and the variation across regions. It also requires adopting other strategies in addition to the RoO to support the development of the value chains including investment and overcoming infrastructure challenges that currently prevent sourcing from regional partners. All of this suggests the need for a holistic strategy for the sector.

2.5.2 Current deadlocks

Across the textiles and apparel sector (HS50-62), agreements have been reached on those HS codes where there is limited activity (e.g. fibres of silk and wool or non-woven or special yarns). Rules have been agreed on for most fibre-level subheadings (HS50 and 51). However, outstanding negotiations remain around cotton, human-made fibres and other intermediate (especially woven and knitted fabrics) and downstream (knitted apparel and clothing accessories) segments. A breakthrough was recently made for not-knitted apparel and accessories (HS 62).

Knitted apparel and clothing accessories (HS 61) has proven particularly difficult in terms of agreeing on rules and the exemptions. The exemptions are to be determined based on an agreed threshold for human-made and synthetic fibres content. While the AfCFTA Council of Ministers recommended that this be based on the availability of materials originating on the continent, data compiled by the World Customs Organisation (WCO) suggest that rather than facilitating ‘vertical integration’, the domestic market for these fibres is rather independent of the activities taking place the knitted apparel segment.

One key issue relates to availability of different fibres. As presented in section 2.1, there is in fact little production of synthetic fibres in the continent, requiring producers to import these. Proponents for liberal RoOs propose that a facilitative approach should be adopted to support access to inputs for African industries. On the other hand, it is argued that strict RoOs would support the development of domestic capacity in these sectors. The future development of the textiles and apparel sector should therefore either focus on cotton, though markets are moving towards mixed fibre textiles, or find ways to encourage investments in synthetic fibres.

Another key issue relates to classification: while the input is considered to be one main textile material based on weight for classification purposes, in reality most textiles today consist of mixed fibres. This is a challenge for RoO negotiations, raising issues for customs control and addressing potential issues of customs fraud.

Overall, the challenges relate to:

- whether or not the HS classification is in fact fit for origin purposes (especially given that most products today are made up of mixed materials)
- whether any new distinctions would assist in customs controls and administration: even distinguishing between HS61 and HS62, knitted or non-knitted apparel, arguably takes a degree of specialised knowledge that customs officers do not have
- the degree to which the market can actually respond to calls for greater vertical integration of value chain stages.

These challenges then raise the question: what would RoOs look like for RVC purposes, but also align with administrative capabilities?

But beyond this, as discussed in this section, the actual impact of RoOs may be relatively small in terms of actual trade flows.

The experience of RECs in promoting the development of the textiles and apparel sector shows that simply implementing RoOs, which are promoted for structural transformation and industrialisation, is not sufficient on its own. These RoOs need to be part of a comprehensive industrial policy that is supported by a variety of complementary measures, including access to the latest technology and industrial enhancement; branding and fashion development; digital trade; accessible and affordable financing; market intelligence to identify trade and investment prospects; support for agglomeration and clustering; extension services; and training programmes for skills development. Furthermore, countries or regions could focus on promoting their industrialisation in a particular sector of the value chain, such as cotton or apparel production, to enhance their industrialisation efforts, rather than concentrating on the entire value chain. This selective approach would have implications for the RoOs that will be adopted.

3 An emerging vision

Two key issues emerge from the above discussions. Firstly, the blockages in RoO negotiations for textiles and apparel offer an opportunity to reframe the discussions around *what it would take to create a continental RVC*. This should build on a common vision of what continental RVCs could or should look like. Secondly, RoO negotiations should therefore be framed around supporting this vision, taking account of the role, the rules can play in supporting, and especially not undermining, the emergence of a continent-wide RVC. This change in approach would arguably help move beyond entrenched negotiating positions frequently based on ideologies and misconceptions of what private sector actors need and want.

A common vision process has already been established for a continental RVC. This has been facilitated by the AfCFTA Secretary General's Advisory Council on Trade and Industrial Development, to facilitate dialogue towards a regional or continent-wide value chain. This seeks to offer an alternative to the negotiations that have reportedly become a legalistic debate and technical exercise, often with little connection with the reality on the ground and limited consultation with capitals during the negotiations (interview). It is hoped that building on this will allow negotiations to overcome the wide heterogeneity of firms and host countries presented and discussed above. Box 6 summarises the key points from the Common Vision.

Box 6 Key statements from the AfCFTA Textiles and Apparel Working Group

Expressed *ambitions* include:

- by 2045 –80% of the clothing, footwear and leather products sold in Africa should be *designed and made within the continent*
- build *globally competitive firms across all the steps in the fibre-to-apparel value chains*, though investments to build capabilities and tech transfer
- develop *vertical competitive capabilities* across synergetic value chains
- attract both *domestic and foreign investment* while building strong domestic *linkages* and

- develop *pioneer firms across the value chain* for globally competitive African-based brands and retailers.

Proposed measures for policy-makers to employ to achieve this include:

- adoption of new-generation and market-oriented *industrial policies,* to
  - maximise green energy sources
  - build eco-industrial parks
  - maximise sustainable fibre production
  - provide incentives package for early-movers and investors
- establishment of a continental information hub to provide reliable data on market opportunities, production capacity and supply chain dynamics on the continent
- a phase-down in the import of used clothing; limit it to items that can be further transformed through reuse or recycling
- strengthening of local content regulations covering public sector purchases of uniforms, work wear and the like
- establishment or enhancement of a robust African quality and standards system
- a reduction in NTBs and structural impediments in the continent
- minimised exceptions to the proposed RoOs and streamlined negotiations and implementation processes within the AfCFTA
- strengthening of capabilities of customs for smooth RoO implementation and to combat illicit entry of products
- adoption of core labour standards to guarantee quality, decent employment opportunities for workers across the continent.

Source: AfCFTA Secretariat and NMSPG (2024)

It is challenging to agree on common ambitions for the RVC with actionable details, and specific measures. That is unsurprising, given the variation in country and firm-level interests presented above. This vision therefore offers a tool for coordination between negotiators, private sector and policymakers, which the vision document seeks to do.

Some of the above proposed measures could be or already are being addressed through the AfCFTA and its protocols. While subject to actual implementation, those include:

- establishing a continental information hub
- improving the African quality and standards system
- reducing NTBs

Other proposed measures reflect more general policies that go beyond the mandate of any continental (or indeed regional) organisation. These are quite far removed from the goal of achieving 80% of African-made clothing in the continent in 20 years' time, produced by globally competitive, high-tech capability African firms, and FDI across all the steps in the fibre-to-apparel value chain. Given that these proposed measures are themselves subject to different interests, incentives and political economy dynamics at the national level, this paper will now discuss what will be required to achieve the stated ambitions.

The need for a revised continental approach that helps unblock negotiations is all the more necessary because of changes in the international landscape. While AGOA has been at the heart of African export success in many countries, future preferential trade access remains uncertain (Adegoke, 2025). As affected players in the African industry think of alternative markets for their diversification strategies, the importance of the continental market is further enhanced.

Further, the global industry is increasingly changing with wider considerations steering decisions beyond cost-saving. Companies are seeking to diversify away from China, to increase sustainability in value chains and to insert greater control over operations, leading to an interest in vertical integration and economies of scope by branching into complementary activities (Whitfield, 2022). This only underlines the need for African governments to use the AfCFTA as a tool to attract international buyers and first-tier suppliers to set up operations in the continent.

In implementing the above vision, we identify the following seven points, each of which we discuss in turn:

1. Vertical integration
2. Textiles investment
3. Technological capabilities
4. Design capabilities
5. Second-hand clothing
6. Sustainability considerations
7. Industrial policy

This requires attention to various aspects described below.

3.1 Vertical integration…

Textiles production, rather than apparel assembly, has far greater potential for linkages to other sectors and knowledge spillovers, and thus can better contribute to the broader goal of industrialisation. Localisation of this industry also implies an ecosystem of firm clusters with expertise in related fields and industry such as chemicals and engineering as well as others like trading and financing (Whitfield et al., 2021).

The AfCFTA provides the opportunity to exploit complementarities of industrial clusters through vertical integration, leading to industrialisation. Rather than integrating through a single firm, it is helpful to think about vertical integration as industrial clusters supporting textile investments through specialisation and supply chain linkages. It is this inter-firm collaboration and networks that drive industrialisation, rather than a single firm-level upgrading (Altenburg et al., 2020). While such upgrading requires technology access through engagement with foreign firms in the GVC, firms operate in a different logic and work with individual suppliers rather than with/through clusters.

For governments interested in industrialisation, the question is not only how to ensure skills are acquired and disseminated but also how to create opportunities for further upgrading by moving to more value-added activities. This requires coordination, which is unlikely to come from the investor or the private firms themselves. First-tier suppliers, normally large multinational companies, are looking for new and more efficient suppliers as they retain a diversified portfolio of investments to fulfil their obligations to brands. But so far, they are satisfied with sub-Saharan Africa being the destination for assembly of apparel, given long lead times and limited capabilities. China’s strong and organised industrial clusters function as a strong deterrent in moving supply chains away from there. Moreover, given supplier squeeze and general steering towards short-term cost concerns by highly financialised buyers, they need to be convinced that African countries can provide such clusters before they invest. The experience in Ethiopia has somewhat dampened the perspective on sourcing from sub-Saharan Africa.

All of these highlight the need for government proactivity to attract investments to be able to engage in continental RVCs. This involves not only understanding the industry but also making links with potential buyers who can convince their suppliers to move their operations (as happened in the case of Ethiopia), and closely collaborating with suppliers to enable their operations, for instance through SEZs, while also meeting other priorities, such as creating domestic technological capabilities. Several experts agree that the main hurdle to achieve this is not technological but political.

3.2 ... through textile investments…

As the global industry seeks to move towards sustainability, more climate-friendly solutions are being sought. In fibre production, while polyester is not a climate-friendly solution, current cotton cultivation can also be harmful for the environment, given its water intensity (65% of Africa’s cotton production comes from countries with hydraulic stress) and use of pesticides and fertiliser, among other things. Organic cotton requires a fundamental shift in farming techniques and heavy investments in certification. Human-made cellulose fibres are upcoming and are considered more sustainable than polyester. They offer windows of opportunity to leapfrog to frontier technologies as there is currently no clear incumbent advantage. However, development in these fibres is currently absent in Africa. While recycling provides opportunities, the concentration of technological innovation in the West risks further fragmentation of the value chain.

Despite being major cotton producers, African countries lack modern production capabilities in spinning, weaving, knitting or dyeing. Moreover, textile operations need to work around the clock in order to turn a profit and remain competitive. Currently, most firms in Africa operate below capacity. The cost of electricity is a major bottleneck to firms' operations. Logistics is another source of costs.

Addressing all these shortcomings requires investments in the textiles sector. The AfCFTA, given its potentially large market size, provides the incentives to attract such investments. As highlighted in Section 2.3, it is also important to get the right kind of investment that ensures knowledge transfer from firms engaged in the GVC. This is as much a function of domestic context and the political economy as it is of how sector transformation takes place.

3.3 ...to build technological capabilities

Through engagement with foreign firms, local firms can build up their technological capabilities. These include technical, organisational and managerial skills that need to be learned over and above formal education, to achieve higher levels of productivity. Firms require investments in learning and accumulation of experience to acquire tacit knowledge by working with foreign supply firms and buyers. Indeed, owners, managers and supervisors need to learn about a wide range host of other internal coordination and management issues that are essential for achieving competitiveness, but that require trial and error to maximise efficiency and minimise waste; workers need to increase their productivity through learning by doing.

Technological capabilities have to do not only with quality and improving competitiveness but also with quantity. For instance, in many African countries, large continental retailers such as Woolworths are unable to source from local suppliers, given their inability in supplying large volume requirements at competitive prices and in meeting the standard and certification required by retailers (Black et al., 2019). As a result, retailers typically prefer collaborating with large suppliers. Here, challenges faced in the GVC and RVC are comparable.

In other cases, it is less about acquiring new capabilities from elsewhere but rather about protecting existing capabilities within the continent. African fashion could be at the forefront of global haute couture and sustainable fashion. Traditional fabrics such as Kente, Adire and Bokolomfini are being reimagined for the contemporary market with international acclaim, given their unique patterns (Wakiaga and Walter, 2025). However, despite their strong potential to compete in fashion design, African firms are unable to do so because of a lack of supporting intellectual property rights and protection (WIPO, 2011).

3.4 ...to develop design capabilities

African designers possess a wealth of creativity and cultural heritage that can be harnessed to enhance the textile and apparel value chain. With increasing global interest in African aesthetics and sustainable fashion, there is significant potential for African designers to drive value addition and brand differentiation (Touil, 2025). By incorporating indigenous textile techniques, such as Kente weaving in Ghana or Adire dyeing in Nigeria, designers can create unique, high-value products that stand out in global markets.[15] This requires the development of brands that can organise and connect designers with manufacturing, underscoring the relevance of capabilities discussed above.

Africa's youthful population and growing middle class further create a robust domestic market for locally designed and produced apparel. Digital platforms also provide an avenue for African designers to access global audiences, enabling them to showcase their work and collaborate with international brands. The AfCFTA presents further opportunities by reducing trade barriers and fostering intra-African collaboration in design and production.

To leverage the capabilities of African designers effectively, policymakers must adopt a multi-faceted approach. Strengthening intellectual property laws and enforcement mechanisms will protect designers' innovations and encourage creativity. Investment in textile production infrastructure, such as industrial parks and technology hubs, can reduce costs and increase efficiency.

Financial support is crucial; governments can offer grants, low-interest loans, and tax incentives to designers and small textile businesses. PPPs can also facilitate access to capital and mentorship. Educational reforms to enhance technical and design training will address skill gaps and foster a new generation of industry professionals.

[15] Dyelab is an example of a boutique firm exploring high value artisanal functional products. https://dyelab.ng/?srsltid=AfmBOoqiVQj1K1PDXnvlUSrZJyHK72hc2M4ZgF1eS3GLCOOUAWsAFmFb

Furthermore, facilitating participation in global fashion platforms and trade fairs can boost African designers' visibility. Regional collaboration through AfCFTA should be supported to create integrated textile supply chains and enable the seamless movement of designs and materials across borders. By addressing these challenges and supporting African designers, the continent can strengthen its textile and apparel value chain, foster sustainable economic development, and establish a distinctive presence in the global fashion industry.

3.5 Revise treatment of second-hand clothing

Current market dynamics may mean that countries have to accept the imports of second-hand clothing in the short to medium term future. Looking at the particular case of Ghana, Mayer (2024) highlights how the commercial and profitable nature of this trade is hidden under the guise of charity, with exporters of second-hand clothing exercising more power and extracting higher profits as a result of knowledge asymmetries.

Given the vast imports of second-hand clothing there is a need for a concerted strategy on these imports. Lessons can be drawn from the experience of other countries such as Colombia, which have introduced weight-based reference pricing and made their policies World Trade Organization-compliant (interview). Further, conditionalities can be placed on imports to promote investments in recycling technologies which can help address the issue of textiles waste while also creating opportunities for economic upgrading in the value chain.

It is also important to highlight the work of SMEs emerging to tackle the issue of waste in the fashion industry and the environmental pollution it results in for African countries. Commendable initiatives like Rummage Studios and Africa Collect Textiles focus on upcycling unusable garments, transforming discarded clothing into new, valuable products. They provide opportunities for local artisans to create marketable goods while supporting environmentally sustainable practices. These initiatives address the growing problem of textile waste while empowering communities by fostering creativity, creating jobs, and promoting a circular economy.

3.6 Embrace sustainability considerations

One of the megatrends affecting the textiles and apparel GVC is organised and is likely to affect opportunities with regards to the AfCFTA as well. This includes sustainability in terms of climate (reducing emissions, and material use and waste) but also in terms of environmental (safe wastewater treatment and disposal, reducing the use of hazardous chemicals), social (labour rights, child labour) and economic (decent wages, among others) issues. Buyers are increasingly likely to select suppliers based on these considerations.

Large multinationals are increasingly relied upon to improve governance outcomes in the overall textiles and apparel sector through the GVC. This includes reducing child labour through responsible sourcing, ensuring decent wages, etc. It remains an empirical research question whether outcomes indeed improve led by buyers, with new research showing results that need to be carefully reviewed to avoid potential unintended consequences (e.g. Trade Talk, 2023a)[16] and understanding the interests and incentives of buyers themselves (e.g. Trade Talk, 2023b).[17]

In Ethiopia, for instance, ILO has implemented a novel intervention approach that combines several projects into one programme to (i) improve worker wellbeing, (ii) increase productivity and competitiveness and (iii) enhance accountability and transparency in labour administration. While these interventions, working together with the government, international buyers and suppliers, have brought about some positive results, they are not (yet) substantial and are affected by the broader macroeconomic and political environment (Oya and Schaeffer, 2024). Occupational safety and health outcomes improved thanks to ILO interventions. But marginal wage improvements have been offset by spiralling inflation. While productivity improvements have been recorded, there have also been reports of challenges in terms of high labour turnover, and, while the method deployed by ILO applied more to firms with the potential to become competitive and export, firms continued to face difficulties in breaking into the export market. Despite more harmonious industrial relations and an expansion in unionisation, there has been minimum progress in setting a minimum wage.

Keane and Calabrese (2024) looking at Bangladesh, Kenya and Vietnam show that **rather than achieving all three aspects of sustainability simultaneously, there has been some degree of sequencing**. The pathways to achieving this have often involved more than one actor. For instance, while economic upgrading is driven by firms with support from policymakers, social and environmental upgrading has involved civil society support with government intervention through regulation and voluntary private initiatives to improve standards with no market-led path to these forms of upgrading, which is also confirmed in the Ethiopia case above. Moreover, to avoid exclusion of the smaller producers, including those in the informal sector, which play an important role in

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[16] Responsible sourcing may depress labour demand in apparel through higher wages and suppress wages in other sectors through potentially greater availability of labour in the market. It may also increase the price of goods in the domestic market. Outcomes depend on the bargaining power of suppliers vis-à-vis buyers to negotiate who pays for higher wages, whether goods are sold domestically or for exports, to what extent knowledge transfer and productivity gains are achieved and so on.

[17] Improved occupational safety and health results are observed in better-organised firms without coming at an additional cost to workers in terms of wages or employment or to factories in terms of productivity. But there is a need to move beyond voluntary measures as buyers are looking out for their interests rather than society’s more broadly and may not be willing to undertake the high costs of monitoring progress, especially when there are risks of them bearing costs but benefits being more widely distributed.

African economies, they highlight the need for more proactive support and accompanying policy frameworks.

3.7 Adopt proactive government and industrial policy

The challenge for all of the above, is that they require proactive government interventions, but industrial policy often prioritises national needs over continental agreements and ambitions. While there is broad agreement on the need for industrial policies to improve competitiveness, while also ensuring broader environmental and social outcomes i(e.g. Morris et al., 2014; Altenburg et al., 2020, Whitfield et al., 2021; Whitfield, 2022; etc.), the challenge exists in terms of aligning the two in ways that encourage investment and upgrading at a national level, while connecting with a continental vision.

Even in promoting continental RVCs, smart industrial policies will remain key. This is not only because of the exigencies of international buyers who need to be convinced that African countries can provide the necessary infrastructure at the right price, as highlighted above, but also because the many actors involved in the sector have different interests and incentives that need to be balanced and efforts that need to be coordinated. Rather than being a particular policy document, industrial policies should be about channelling disparate, and often incoherent, incentives to develop the textiles and apparel sector. With a continental vision for the sector, national industrial policies can be structured around this common goal and facilitate cross-country collaboration.

Given the need to collaborate with foreign firms to enhance the technological capabilities of local firms and the power asymmetries that leave local firms on the lowest rung of value-added activities, industrial policies also have a role in strategically directing investments. They can ensure technology and knowledge transfer to local firms while creating the right environment for local firms to meet the standards required by buyers. Right design of these policies would build on the differing needs of firms and find a balance to ensure longer-term investment and value-addition, with continental inputs and export markets in mind

Smart industrial policies must start with a good knowledge of the sector. In Ethiopia and in Togo, national industrial policies preceded by close collaboration, along with several visits by key actors in political office to potential buyers and investors to understand the sector. Given that vertical integration goes beyond upgrading of individual firms, industrial policies should aim to create clusters of firms with linkages with one another. This requires a holistic view of the ecosystem to identify strategic requirements. For instance, given that long lead times are one of the major bottlenecks in involving African firms in the GVC, coordination between logistics and textiles firms needs to be ensured through industrial policies. Access to affordable energy and cheap financing to develop domestic capabilities have also been key pillars of previous successful industrial policy efforts.

Understanding industrial policy as strategic coordination (Andreoni and Chang, 2019) suggests that the policy toolbox must go well beyond trade policies (though addressing the issue of second-hand textiles is critical), or even formal rules such as RoOs. The starting point of these policies should be to build domestic capabilities rather than substituting imports or promoting exports alone. Similarly, these policies also need to be in tandem with, or be opportunistically developed following, the interests and strategies of the private sector, with an appropriate mix of time-bound incentives and compulsions to ensure these do not become a tool for unproductive rent-seeking. This can be achieved through the right kind of investments but also by focusing on the right kind of local firms to support learning and gaining of tacit knowledge, which typically requires time. The successful development of a textiles industry in Africa through an ecosystem with industrial clusters requires establishing trust among players, brought about through credible commitments.

The key consideration for a continental RVC is the need to think regionally rather than nationally. While on paper there are ambitions to work regionally, there is often competition between nations. As suggested, this also plays a role in the RoO discussions. National rules themselves are a culmination of eventual negotiations between various influential groups of actors, which may or may not be disposed to think regionally. This was likely the case in South Africa’s Masterplan, where the focus is on national rather than regional procurement.

Industrial policies can also help with pre-emptive action to encourage a switch in target export markets. For instance, though the sustainability of the Ethiopian model has been called into question, given unfolding political tensions, there is a question around how best to use some of the capabilities that have been developed. While PVH, which had been convinced to get its suppliers to move operations to the country, has since left the country to Ethiopian exclusion from AGOA, it is important to tap into the technical capabilities left behind in the firms that remain. This includes diversifying export destinations and improving productivity in the sector (Abrham and Tsehay, 2024). Rather than post hoc, as in the case of Ethiopia, such thinking can be applied pre-emptively in the case of Kenya, which also depends almost exclusively on AGOA preferences but where existing capabilities in the apparel sector could be successfully harnessed to explore opportunities to expand into regional exports and/or to source inputs regionally.

Overall, the above seven points reflect what are often national level concerns that can and should be framed around a continental textiles and apparel vision. While a continental industrial policy is unlikely to be desirable or feasible to implement, a continental RVC approach should provide a framework within which different countries can seek to achieve these different ambitions - around vertical integration; textiles investment, technological capabilities; design capabilities, addressing second-hand clothing; and sustainability considerations. The key point is that while all of these are aspects of industrial policy, each country must find ways to align national interests with a common continental vision of the different ways in which textiles and apparel RVCs might take shape.

4 Ways forward

This paper highlights the heterogeneity of the textiles and apparel sector in the continent. As stakeholders in the industry - whether they are firms, policy-makers, development or implementation partners, or civil society organisations - think through ways to leverage the AfCFTA for a continental textiles and apparel RVC, the following elements appear crucial for shaping discussions.

Preferential market access remains a key consideration for foreign investors into the African textiles and apparel sector. Without AGOA, most firms would not be competitive, and in countries such as Kenya and Lesotho would exit the market. This has major repercussions for the African industry. While countries such as Kenya are banking on a bilateral FTA agreement with the US as an insurance (Beyond a Single Story, 2024), a broader solution needs to be sought for other countries. In this regard, the AfCFTA presents an opportunity to enhance intra-African market access and foster the development of a 'Made in Africa' brand, positioning the region as an alternative or complementary market to global value chains.

Strengthening regional trade within the AfCFTA framework can reduce dependency on external preferential trade agreements while also supporting industrialization and economic integration. Access to export markets remains crucial for local firms to gain knowledge, adopt new technologies, and collaborate with foreign companies that control global production networks. This, in turn, helps build domestic capabilities and competitiveness in ways that a purely domestic focus cannot achieve. Market access was key for countries such as South Korea and Taiwan in the 1950s and 1960s, along with technology transfer and capability-building efforts through active industrial policy supplier countries' side and direct sourcing by retailers and brands on the demand side (Whitfield et al., 2021).

Developing Regional Value Chains (RVCs)

A strategic approach to enhancing Africa's textile and apparel sector may involve developing differentiated regional value chains (RVCs) that target external and intra-African markets. Different regions can leverage their existing productive capacities and strengths to create specialised RVCs:

- **West Africa:** The region has the potential to become a textile hub for cotton-rich fibre. Investments in West Africa by African financial institutions and governments can help businesses expand existing cotton exports from West to North Africa, and beyond, by addressing existing infrastructure and logistical issues. Specialised eco-friendly products that meet sustainability standards, including the Cotton made in Africa (CmiA) standard but also other certified organic cotton present an opportunity to expand regional production aligned with sustainable fashion practices while enhancing market access within Africa. As investments in textiles production gather pace, especially in Benin and Togo, opportunities can also be explored for building capabilities in recycling technologies. Given its unique advantage in textiles design that integrate traditional craftsmanship with contemporary fashion, efforts can be geared towards consolidating these and developing African brands across the board.

- **North Africa:** The region has already established export-oriented production. A future orientation in the sector could involve sourcing inputs from within the continent and indeed building these capabilities within the region such as Egypt which has attracted investments into the textiles sector leveraging its cotton (among the finest in the world). There are some imports of cotton from West Africa. Existing capabilities in the chemical industry could be leveraged to enter man-made fibre space, including the newest bio-fibre technologies. It would also be important to consolidate existing capabilities (e.g. Tunisia in denim fabric) to expand into the African market.
- **East Africa:** Similar to North Africa, this region too has export-oriented business, though these are geared towards the US market under AGOA. Given the heightened uncertainty around the continuation of these preferences, there is a need to explore alternative markets while taking into account that access to mature markets will remain key for the industry. Moreover, there are some opportunities to source inputs regionally where countries like Tanzania and Uganda feed textile inputs into the Kenyan apparel industry in a hub-and-spokes-like model.
- **Southern Africa:** There is potential to expand the existing Southern African RVC by enhancing infrastructure, improving supply chain coordination, and encouraging further vertical integration. Countries such as South Africa, Lesotho, and eSwatini already play key roles in garment production and can further consolidate their position through policy support and investment in advanced manufacturing technologies.

For each one of these RVCs, it would be important to identify key barriers and design effective governance based on the points highlighted in section 4. Given the diversity in terms of existing capabilities, the industrial make-up and relations among actors in the ecosystem, policy measures will differ across regions and countries.

Beyond tariffs and RoOs, what other AfCFTA protocols might be used, and how?

Beyond tariffs and Rules of Origin (RoOs), several other African Continental Free Trade Area (AfCFTA) protocols could play a pivotal role in facilitating the textiles and apparel value chain, especially by promoting forward and backward linkages with other sectors, improving the enforceability of regulations, ensuring compliance with customs regulations, boosting investments and digital trade. Adopting a coordinated approach to implementing these protocols can align with the 'common vision' elaborated by the private sector for the textiles and apparel value chain. Negotiators would need to cast a broader vision for the textiles and apparel sector which encompasses the interlinkages between the protocol on trade in goods, discussion on the rules of origin and the broader agreements under the AfCFTA.

- **Protocol on Trade in Services**: This protocol aims to liberalise trade in services across the continent. It is essential for sectors such as telecommunications, financial services, and transportation, which are vital for enhancing intra-African trade in the T&A sector. The protocol can enhance the development of the T&A regional value chain by reducing regulatory barriers, encouraging investment in service industries including aspects such as design, promoting digital trade and facilitating the free movement of service providers.
- **Protocol on Investment**: The AfCFTA Investment Protocol aims to create an attractive environment for both intra-African and foreign direct investment (FDI)by liberalising investment flows by ensuring non-discriminatory treatment for investors, strengthening investor protections, and reducing barriers to capital movement. The protocol is particularly important for countries seeking to attract and improve large scale investments in textile sector especially in mills and yarn and fabric production.
- **Protocol on Intellectual Property (IP)**: Intellectual property protection is a crucial component of fostering innovation, creativity, and technology transfer. The AfCFTA IP Protocol seeks to harmonise IP laws and systems across member states, ensuring better protection of patents, trademarks, copyrights, and other forms of intellectual property. This harmonisation is essential for businesses operating in multiple countries, as it reduces legal uncertainty and promotes knowledge-sharing. The importance of IP has been highlighted in improving the design capacities of African countries, thus the need for enforceable IP regulations.
- **Protocol on Competition Policy**: The competition policy protocol aims to create a fair and level playing field for businesses by promoting healthy competition and preventing anti-competitive practices. This protocol addresses issues such as monopolistic behaviour, price fixing, and market

dominance, which can hinder the growth of small and medium-sized enterprises (SMEs).

- **Protocol on Customs Cooperation and Mutual Administrative Assistance**: This protocol focuses on enhancing customs cooperation and improving the efficiency of customs procedures. By streamlining customs processes, reducing delays, and promoting the sharing of information between member states, the protocol helps facilitate the movement of goods across borders. It also reduces the administrative burden on businesses, lowering transaction costs and ensuring smoother cross-border trade. This is equally an important requirement to ease the implementation of the agreed RoO.
- **Protocol on Digital Trade**: The AfCFTA Digital Trade Protocol seeks to promote cross-border e-commerce and digital trade across the continent. By establishing common standards for data flows, electronic payments, and cybersecurity, this protocol helps remove barriers to digital trade, allowing businesses to engage in online commerce with greater ease and security.
- **Dispute Settlement Mechanism (DSM)**: The **Dispute Settlement Mechanism** is a cornerstone of the AfCFTA framework, ensuring that disputes between member states, suppliers, and firms are resolved in a structured and impartial manner. When disagreements arise over the interpretation or implementation of the AfCFTA protocols, the DSM provides a platform for addressing these conflicts. The mechanism promotes legal certainty, fostering a business-friendly environment across the continent by ensuring that contractual obligations are respected, and disputes are handled in a transparent and efficient manner.

The above directions might form the basis of sector level and regional discussions. These should be framed around the ambitions laid out in the continental vision, their implications for national industrial policies, and actual administrative challenges to roll out, comply with and enforce rules, where actual trade and market connections must be the priority.

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