

Regional Integration and the African Textile Industry -

Part 9: Advocacy for Textiles Trade within the Region

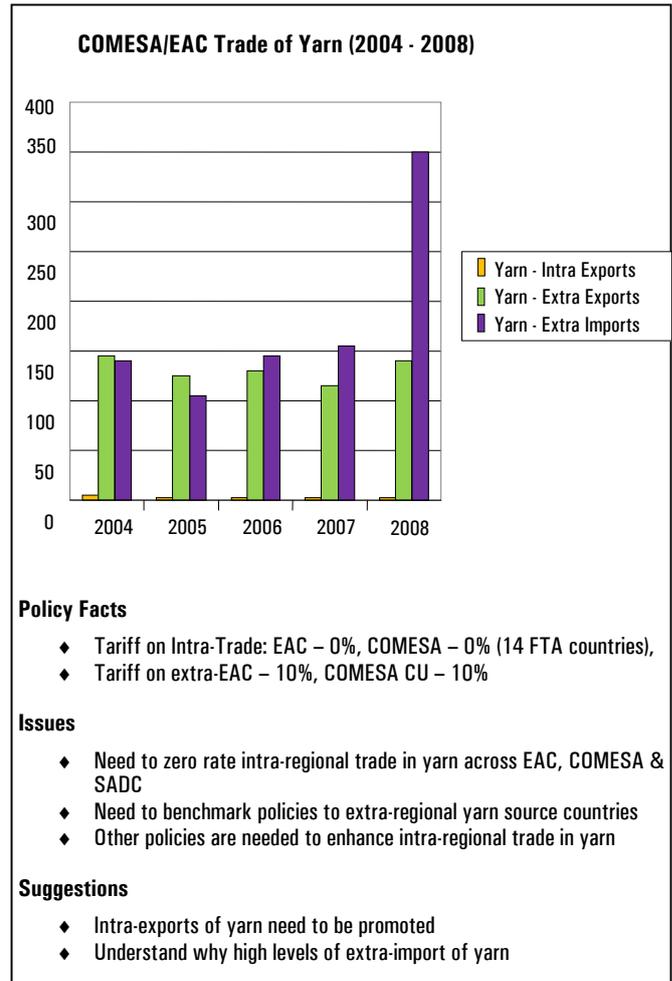
The second element of the business regional integration framework is the drive to create a genuine common market. In the first section it was identified that this was the vital level of regional integration, and the long-term driver of regional integration benefits. This is built, first and foremost on a customs union, the support mechanism for the regional market because it enables an industry to grow by ensuring it receives cheap imports and protection from competition while it develops and becomes more competitive.

The main elements of this were identified as;

- ◆ Customs Union Procedures
- ◆ CET Tariff Structure
- ◆ Customs Procedures
- ◆ Anti Smuggling Measures
- ◆ Rules of Origin
- ◆ Internal Market

The ACTIF workshop did not highlight many of these issues as priority – preferring, as noted in the last section, the more immediate and less sensitive business to business measures. The customs union and the CET did not figure too prominently amongst the priorities, which is perhaps because nearly all intra-regional trade is currently at 0%, although the other barriers that impede increased trading, such as smuggling and customs procedures were all mentioned as issues to deal with. As intra-regional trade is also so small, and business so focused on exporting out of the region, the intra-regional aspects of a CET are of little concern to business. In addition to this the industry seems to be satisfied with the tariffs imposed on extra-EAC imports – inasmuch as they have to accept them as part of the

three-tier CET structure that was agreed in the EAC and COMESA region. It is possible to highlight this point with two more specific examples. The first is the situation of yarn in the EAC-COMESA region as shown in the figure below;

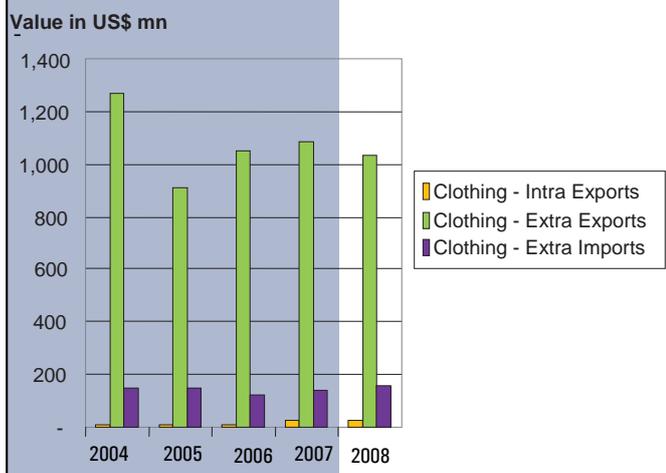


Source: USAID Compete presentation Nairobi, ACTIF Workshop, April 2010

This figure shows how the EAC and COMESA regions have a 0% tariff on all intra-trade – although, as mentioned before, smuggling and poor customs procedures mitigate the full effect this should have. The external tariff on imported yarn is currently 10%, which does not stop, certainly in 2008, large scale imports of yarn from outside the region. The question arises here as to why there is so much yarn imported from outside the region; is there an internal shortage? Is there an impediment to intra-regional trade that needs to be rectified? There is clearly an issue on intra-regional trade because it is almost non-existent, something that regional integration will try to clarify and rectify.

A second example is in the apparel sector;

COMESA/EAC Trade in Apparel, 2004 - 2008



Policy Facts

- Tariff on Intra-Trade: EAC – 0%, COMESA – 0% (14 FTA countries),
- Tariff on extra-EAC – 25%, COMESA CU – 25%
- Restrictive Rules of origin (VA Threshold, EPZ Schemes, SACU/MMTZ)

Issues

- Need to zero rate intra-regional trade in yarn across EAC, COMESA & SADC
- Enable Rules of Origin that:
 - Allow cumulation across the 3 RECs
 - Single transformation (for limited period)\$
 - Lower Value Addition threshold (for limited period)
- Need to benchmark policies to competitor countries in the USA/EU and other external markets

Suggestions

- RoO that enhance trade prospects – the wider the application the better
- Extra-regional exports of clothing to EU and USA Market

Source: USAID Compete presentation Nairobi, ACTIF Workshop, April 2010

This figure shows again that the intra-regional tariff is 0%, but in this case the tariff on imports from outside the region is set in the EAC highest band of 25% in an attempt to protect domestic industry. This would appear to be the case as imports from outside the region are stable at a relatively small level. Again intra-regional trade is very low – a pattern that emerges across all levels of the textiles value chain. In theory this should be a situation that is improving given that all intra-regional trade is at 0% tariffs, and there are signs of this in 2007 and 2008.

The most obvious reason why intra-regional trade is so low is not related to the CET but to business to business developments and local infrastructure which is likely insufficient to allow intra-regional trade to actually take place, irrespective of the CET and customs procedures. Nonetheless

further benefits can be accrued by local business if they have knowledge of local supply and demand and issues such as smuggling are addressed in a more concerted manner. Nearly all ACTIF members agreed that smuggling was damaging their domestic market and felt that there was an urgent need for action. It was much the same in the realm of improving customs procedures to make them easier and faster – again something that would benefit all business sectors. One issue that was flagged as a priority was the difficult question of how to deal with the question of copied designs and patterns coming back to Africa. This is a very political question to which there is no obvious, or easy, answer. One strategy for the African textile industry is to lobby for creating a regional IPR regime to increase protection of its regional market underpinned by a strong global framework and credible enforcement mechanism.

The issue of infrastructure has been openly advocated but it was very clear that the textiles sector alone is not going to generate the pressure needed for the major projects that are required. This is a task for the national cross-sectoral associations and international organisations, and is likely to be a long-term initiative. The benefits that regional integration offers will never be fully realised without an operational regional infrastructure, because regional trade will not be possible and a regional value chain will be difficult to achieve. It needs emphasis that “investment in infrastructure must be accompanied by measures that reduce trade costs and by appropriate regulation – for instance, policies that promote competition in transport services and improvement in border management”.

This section has made no mention of regulatory, or harmonisation, measures that are being implemented by the EAC to create a common market – the often cited long-term driver of competitiveness in regional integration. The absence of business interest and advocacy on these aspects of regional integration was rather striking, but nonetheless it is representative of certain key facts. The first is that while business to business regional development has not yet taken place their focus will be elsewhere, and because business is usually quite short-term orientated these low-hanging fruit projects are ideal solutions. Secondly it could be because regional integration has not yet reached this level of maturity – although all African regional groups aspire to common market status within very short timeframes. This would suggest that the lack of focus on the development of a common market comes from other factors. It is most likely from a lack of communication within the region of what is actually happening and how the process works, especially given the timelines that are announced, and that there is a lack of direct understanding of how all of this impacts individual businesses.