

The Textile and Clothing Sector in Botswana: Challenges and Opportunities

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Abstract

This paper considers the performance of the Textile and Clothing (TC) sector in Botswana and reviews various national and international incentive schemes aimed at developing TC exports. The analysis shows that domestic policies and preferential trade regimes helped establish the sector and still play a central role in its continued operation. However, the sector has failed to take advantage of existing trade preferences and thus the situation worsened, between 2008 and 2010 due to the global economic crisis and phasing out of export incentive schemes, respectively. It is therefore fundamental that appropriate policies and interventions are put in place to secure the sector's growth, development and competitiveness. Once government has determined that the sector is commercially viable in the long term, the short term measures that have been put in place between 2010-11 need to be replaced with measures that address the long term profitability of the sector.

Keywords: Textile and Clothing, Preferential Trade Regimes, AGOA, Botswana, SACU, SADC.

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1. Introduction

The development of the textile and clothing (TC) sector has been vital to the economic interests of Botswana over the last twenty years as the sector has provided an important source of semi-skilled employment, which alleviates poverty, especially for women and has generated export revenue. This sector has traditionally benefited from a number of policies including relatively high Southern African Customs Union (SACU) tariffs, quotas and export incentives. Botswana has preferential access to important markets for TC products such as the United States (US), through the Africa Growth and Opportunity Act (AGOA) and European Union (EU) markets.¹ AGOA has had a significant impact on the country's TC sector by providing duty free access to the US market. Conversely, the AGOA provisions are also set to expire in September 2015, however there is a bill already that makes provision for an extension to the end of 2019 (and beyond). The preferential trade agreements are crucial to economic growth and the development of any country hence they created Botswana's TC sector's potential.

Botswana's TC exports also enjoy duty and quota free access to markets in Lesotho, Namibia, South Africa and Swaziland through the SACU Agreement and thus products produced within the union move freely within the common customs area. However there are non-tariff barriers in the region that hinder free movements of goods. Furthermore, Botswana's exports including TC are also admitted duty and quota free to the EU market through the Interim Economic Partnership Agreement (IEPA).² Botswana also has a free trade agreement with Zimbabwe that started in the early 1950s. SACU, in order to encourage exports in the region, introduced a Duty Credit Certificate Scheme (DCCS). Under this scheme firms earned duty credit certificates (DCC) whenever they exported products outside the SACU market and a firm will then claim a remission of duties on imports of certain prescribed TC products. The DCCS was then replaced by the Textile and Clothing Industry Development Programme (TCIDP).

The phasing out of the Multi-Fibre Agreement (MFA) on TC at the end of the Uruguay Round of World Trade Organisation (WTO) negotiations adversely affected the TC sector in Botswana and most foreign owned firms relocated back to their parent companies. The Agreement on Textiles and Clothing (ATC) laid out a staged process for liberalization of bilateral import quotas over a ten year transition period, which was from 1995 to 2005. The final elimination of the MFA in 2005, just prior to the commencement of the global economic crisis resulted in a loss of TC exports. Botswana, as well as many developing countries could not compete with the powerful TC producing countries such as India and China which can sell their goods at considerably lower prices in the global market.³ As a result, textile, clothing and footwear (TCF) imports into the Botswana and the SACU area market have escalated rapidly over the years and partly due to the elimination of the MFA (figure 3).⁴

The main objective of this paper is to review the performance of the TC sector in Botswana and consider various national and international incentive schemes aimed at developing the

¹ Trade relations between SACU and EU were governed by the Cotonou Agreement but the agreement has since been replaced by the Economic Partnership Agreement, whose negotiations are on-going. The textile and clothing products covers HS chapters 50 to 63 and HS chapter 64 is footwear, which is not produced in Botswana.

² Botswana negotiated Interim EPA under the SADC configuration together with Angola, Lesotho, Namibia, Mozambique, Swaziland and South Africa. Botswana, Lesotho, Mozambique and Swaziland signed the Interim EPA in June 2009, while Angola, Namibia and South Africa did not sign citing some concerns on certain provisions of the Agreement. The second phase of the negotiations is on-going.

³ Botswana; African Economic Outlook 2004/2005, www.oecd.org/dev/aeo.

⁴ According to Central Statistics Office, the import data includes footwear whereas the export data does not.

sector. The paper is organized as follows: Section 2 discusses the background on the history of international trade in textile with discussions on MFA, ATC, AGOA DCCS and TCIDP. Section 3 analyses the SACU trade regime for TC. In section 4 and 5, we discuss the history and current status of the TC sector in Botswana, respectively. Conclusions are presented in section 6.

2. The History of International Trade in Textile and Clothing

Historically, the TC sector enjoyed protection for decades, where exports were subject to quotas under a special regime outside the normal General Agreement on Tariffs and Trade (GATT) rules. From 1974 to 1994 selective quantitative restrictions were applied, however the TC trade was liberalised in 2005 when WTO members integrated fully the TC sector into the GATT rules.

2.1 Multi-Fibre Agreement (MFA) and the Agreement on Textiles and Clothing (ATC)

The Multi-Fibre Agreement was set up in 1974 as a set of formal quota arrangement and restrictions governing the TC trade between developing and developed countries. The MFA established quotas on different categories of TC imports primarily to the EU and the US. MFA quota restrictions were placed on by the US and EU members exports from a number of low-cost-producing countries to try to limit imports to protect their own industries (Morris and Sedowski, 2006). These restrictions targeted mainly the TC exports from some larger developing countries such as Pakistan, India and the world's clothing manufacturing powerhouse, China. The quota system, which had been in force for nearly thirty years, resulted in the global spreading of TC production by restricting imports from countries that would have had a larger volume of exports were not exports constrained by their quota allocations (Appelbaum, 2004).

The MFA was phased-out as part of the Uruguay Round of multilateral trade negotiations in 1994 which led to the creation of the WTO. The MFA conflicted with the GATT's general preference for customs tariffs instead of quantitative measures. Nordas (2004) noted that the MFA was viewed as one of the most comprehensive and discriminatory instruments of the international trade.⁵ The ATC replaced the MFA in 1995. Keenan et al (2004) argued that producers in Sub-Saharan African countries were likely to see their industries decimated as a result of the integration of the TC industries into the GATT. The phasing-out of the MFA and the accession of China to the WTO meant that TC trade shifted dramatically towards China and India. Francois and Spinanger (2004) argue that the MFA and ATC have, in effect, been serving as a negative preference system helping other developing countries at the expense of the two potentially dominant suppliers, China and India.

The shift in the TC trade meant that the smaller developing countries lost market share for TC products. For example, EU imports from China increased by 164 percent in volume in 2002 for those products categories where quotas were eliminated.⁶ In the case of South Africa, Botswana's major trading partner in the region, the TC imports from China surged to 89% of total TC imports in 2001. It should be noted that historically TC imports into South Africa originated from a wide range of countries including Taiwan, South Korea and Europe.⁷

⁵ The ATC was set out as a transitional process for the removal of quotas and it took over 10 years to fully integrate the textile and clothing sector into the GATT.

⁶ Sector Futures; Textiles and clothing: A dying industry-or not? European Monitoring Centre on Change.

⁷ <http://www.textfed.co.za/main.htm>

It is against this background that a textile specific special safeguard was negotiated with China as part of its accession to the WTO. The special safeguard allowed any WTO member to re-impose quotas on Chinese TC products for one year between 2005-2008 if the Chinese imports were deemed to be disrupting domestic markets and harming home country producers. South African government in August 2006 invoked the special safeguard and imposed import quotas on TC from China; and many other countries, including US, invoked this special safeguard during that period. The motive behind quotas was that it would give the domestic industry enough time to restructure and improve competitiveness and boost production and employment

2.2 Preferential Trade Access

This section reviews the existing trade preference agreements namely AGOA which have had an impact on the Botswana TC sector. AGOA has been instrumental in driving the exports of TC products in Botswana.

2.2.1 The Africa Growth and Opportunity Act (AGOA)

AGOA is a US initiated unilateral preference arrangement that seeks to assist the economies of the Sub-Saharan African (SSA) countries and improve economic relations with the US. The US government continued to modify certain provisions of the AGOA over the years; i.e. in 2002, 2006 and 2009 and these modifications ensured that the SSA countries continue to enjoy the U.S market access. The recent proposed amendments included the following;

- To extend AGOA from 2015 to the end of 2019 (and beyond) provided that there is a successful end of the Doha Development Agenda Round of Negotiations before the end of 2015;
- That the Act be renewed after every 5 years, for Lesser Developed Countries (LDC)
- To extend the third country provision by 3 years, from 2012 to the end of 2015⁸ and;
- To abolish any quotas on goods shipped from AGOA-eligible countries.

2.2.1.1 AGOA's 'Wearing Apparel' Rules of Origin (RoO)

Textile and apparel imports to the US must meet AGOA's RoO to avoid Africa becoming an export platform for production originating from elsewhere (Lynch, 2010). The purpose of RoO is to determine where the product is made. RoO are economically justified in order to prevent trade deflection or the re-export of foreign apparel purchased at a lower price while pretending it is produced in that particular country (Portugal-Perez, 2008). All AGOA eligible SSA countries must satisfy the 'Wearing Apparel' provisions before they can export apparel (and other certain textile items) to the US under AGOA. This includes taking necessary steps to establish effective product visa systems to the satisfaction of the US authorities to prevent illegal transshipment.⁹ Under the RoO, apparel made in qualifying SSA countries from US fabric yarn and thread is provided with duty-free and quota free access to the US market without limitations.¹⁰ Botswana, like other lesser developed countries enjoy AGOA's third country provision which allows firms to use fabric from any origin in the production of garments exported under AGOA. This was a key provision that facilitated the development of the TC sector in several Southern African countries including Botswana.

⁸ This provision allows lesser-developed country to enjoy a duty and quota free access for apparel made from fabric originating anywhere in the world.

⁹ Transshipment is when goods which are manufactured in one country and are shipped to another country, relabeled, and shipped to the U.S. having claimed to originate from the second country. According to a report on AGOA for Technical Committee on Market Access, 2 March 2010, Botswana Unified Revenue Service (BURS) recorded high levels of transshipments where 4 out of 7 companies that exported to the US were faced with serious charges of transshipments (P100 000)

¹⁰ Rules of origin are a key factor to determine whether trade agreements or preferences have met their objectives.

Although AGOA has helped increase exports overtime it is far from evident that it has helped establish a viable, sustainable and competitive export sector in SSA (Paez, *et al*, 2010). Furthermore, AGOA is a unilateral arrangement, that is reviewed annually hence it is difficult for Botswana to promote long term strategies aimed at harnessing its potential of improved trade, investment and employment opportunities.

Statistical evidence reveals that AGOA has had a sizeable, but in many cases, unsustainable impact on African textile and apparel trade with the US since its inception. Table 1 shows US textile and apparel imports of selected AGOA-eligible countries, from 2001 to June 2010. Overall total US textile and apparel imports have increased significantly, although from a very low base of 355 million dollars in 2001 to 1.6 billion dollars in 2004. Between 2005 and 2010 textile and apparel imports have fluctuated. There was a decrease in imports in 2005 to 1.4 billion dollars as the effects of the MFA began to be felt and since then the textile and apparel imports have been gradually declining to a low 914 million dollars in 2009, however the sharp decline in 2009 may be attributed to the 2008/09 financial crisis. There has been sizeable impact on textile and apparel trade in countries such Lesotho, Madagascar, Mauritius, Kenya, Swaziland, Botswana and to a lesser extent Ghana, Ethiopia, Malawi, Uganda and Tanzania. From the table, an upward trend for Botswana's exports is observed from 2002 to 2007 validating that indeed AGOA had a significant impact in the growth of the sector; however a downward trend is seen from 2008 to June 2010. Although AGOA has helped increase exports overtime it is far from evident that it has helped to establish a viable, sustainable and competitive export sector in SSA (Paez, *et al*, 2010). One other fundamental difficulty about AGOA is that it is a unilateral arrangement offering preferences to Botswana and can be terminated unilaterally, so it difficult for Botswana to promote long term strategies in order to harness the potential of improved trade, investment and employment opportunities offered by AGOA.

Table 1: US Textile and Apparel Imports of selected AGOA-Eligible Countries (In 1,000 US\$)

| Country | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | YTD* |
|--------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|
| Botswana | - | 3,708 | 6,344 | 20,118 | 30,043 | 27,687 | 31,333 | 15,802 | 12,361 | 4,778 |
| Cape Verde | - | - | 2,452 | 2,902 | 2,115 | 85 | - | - | - | - |
| Ethiopia | 163 | 1,297 | 1,684 | 3,327 | 3,509 | 4,872 | 4,560 | 9,357 | 6,619 | 3,312 |
| Ghana | - | 324 | 4,254 | 7,099 | 4,986 | 8,807 | 7,517 | 766 | 275 | 596 |
| Kenya | 51,684 | 121,213 | 1,762,224 | 271,480 | 266,615 | 258,905 | 244,778 | 246,154 | 194,834 | 79,447 |
| Lesotho | 129,242 | 317,660 | 372,614 | 446,494 | 388,344 | 384,452 | 379,464 | 338,686 | 276,885 | 106,109 |
| Madagascar | 92,048 | 75,415 | 186,253 | 314,185 | 272,962 | 229,499 | 281,432 | 277,036 | 209,943 | - |
| Malawi | 4,696 | 11,402 | 22,388 | 25,485 | 22,450 | 18,187 | 19,824 | 12,671 | 9,015 | 3,619 |
| Mauritius | 38,874 | 106,498 | 134,958 | 147,798 | 146,811 | 145,776 | 112,346 | 97,016 | 98,622 | 48,251 |
| Mozambique | - | 187 | 2,179 | 1,805 | 2,512 | 658 | 161 | - | - | - |
| Namibia | - | 1,539 | 32,131 | 75,906 | 53,058 | 33,010 | 28,576 | - | - | - |
| South Africa | 30,487 | 85,261 | 126,885 | 114,616 | 61,621 | 41,978 | 21,335 | 15,955 | 10,114 | 2,200 |
| Swaziland | 8,195 | 73,719 | 126,841 | 175,641 | 159,175 | 134,486 | 134,533 | 124,412 | 94,164 | 39,280 |
| Tanzania | - | 124 | 851 | 2,520 | 2,811 | 2,994 | 2,810 | 1,501 | 996 | 245 |
| Uganda | - | - | 1,414 | 4,010 | 4,840 | 1,253 | 1,134 | 403 | 138 | 57 |
| Total | 355,389 | 798,446 | 1,197,472 | 1,613,408 | 1,421,852 | 1,292,680 | 1,269,803 | 1,139,761 | 914,001 | 287,929 |

NB: * Denotes Year-to-Date values from January to June 2010

These figures are that of AGOA excluding Generalized System of Preferences.

Source: Paez, et al (2010)

2.3 SACU Incentive: The Duty Credit Certificate Scheme (DCCS)

From a historical background the TC industries in the SACU region have always been given special support by their governments. For example, in the 1980s, the South African government argued that its TC industries suffered from an anti-export bias caused by high import duties on raw material, which made it difficult for their manufacturers to compete internationally. To correct this bias, the South African government introduced the Structural Adjustment Programme (SAP) in the 1980s to stimulate the TC industry growth. The SAP offered tradable duty-free import permits on the basis of export success as a means of reducing input costs (Reid, 1999). With the SAP, the TC industry earned import certificates based on export performance, which they could then use to counter for the anti-export bias present in the high import duty structure of imported inputs (Breitenbach, 2008).

South Africa then introduced the General Export Incentive Scheme (GEIS) in 1990 to encourage exporters of TC products to offset the price disadvantages prevailing in the international market which may have been caused by the anti-export bias. The GEIS provided tax free subsidies to exporters based on the value of exports, the degree of processing of the export product, the extent of local content embodied in exports (Breitenbach, 2008). While the SAP rewarded value added, the GEIS focused on the level of beneficiation. The higher the level of beneficiation, the higher the level of incentive paid (Breitenbach, 2008). Although both the export incentive schemes encouraged exporters of TC products, they had their shortcomings. SAP proved to be an ill considered and a highly disruptive export incentive that ultimately led to the destruction of certain sectors of the TC industry (Breitenbach, 2008).

The Duty Credit Certificate Scheme (DCCS) was then introduced in 1993 as a bridging measure after the SAP was stopped and it came into effect after a prolonged period of consultation with the TC industries. The objectives of the DCCS were to enable the TC industries within the SACU region to attain global competitiveness and provide sustainable employment within the region. The DCCS was administered by the International Trade Administration Commission (ITAC), which was previously known as the Board on Tariffs and Trade (BTT). DCCS was an export incentive for SACU's TC companies, designed to encourage outward orientation of manufacturers and as a policy it has played a major role in the development of the TC industries in the SACU region since its introduction.

The DCCS operated on the basis of TC companies earning import duty credits certificates based on certain prescribed exports of TC products to markets outside the SACU region. The decision to award a certificate was based on proven exports and the certificates were then used to claim a remission of duties on imports. The value of the certificate was calculated as a percentage of the export sales value, where the export sales were reduced if the full invoice have not been repatriated (ITAC, 2004). Alternatively the rebates earned could be sold to any other importer of textiles or clothing products (Barnes, 2005).

The DCCS ended on the 31st March 2005, and was replaced by an interim Textile and Clothing Industry Development Programme (TCIDP), which was introduced with effect from the 1st April 2005 and was supposed to be valid until the 31st March 2009 but was subsequently extended till the 31st March 2010. The TCIDP offered duty credits based on the exportation of textile and clothing products just like the DCCS, but the only difference was that the certificate was not tradable into the 'secondary' market.

3. SACU Trade Regime; Textile and clothing

An analysis of the SACU Tariff Structure shows that TC products attract higher tariffs, indicating a high level of protection on the sector. Table 2 shows sectoral distribution of SACU Most Favoured Nation (MFN) ad valorem tariffs. The highest applied tariff is 40 percent and most tariff lines attract duties between 15 percent and 40 percent (Table 2). These higher tariffs could be attributed to South Africa's reluctance in reducing tariffs in this sector (BIDPA, 2008). This sector is highly protected and if the motive behind protection was to increase output and employment as trade policy suggest, it should be the most developed. Table 2 shows that the TC sector has 979 ad valorem tariff lines with 132 duty free, 64 lines attracting duties between 5 and 10 percent and 783 attracting duties equal to or greater than 15 percent.

Table 2: Sectoral Distribution of SACU MFN ad valorem Tariffs, 2007

| HS Chapter | Description | Duty Free | 0<=5 | 5<=10 | 10<=15 | 15<=20 | 20<=25 | 25<=30 | 30<=50 | >50 | Total Lines | % of Total Lines |
|------------|----------------------------------|-------------|------------|------------|------------|------------|------------|------------|------------|----------|-------------|------------------|
| 01-05 | Animal & Animal Products | 166 | 1 | - | - | 4 | 17 | 2 | - | - | 190 | 2.94 |
| 06-15 | Vegetable Products | 163 | 31 | 74 | 30 | 44 | 5 | 4 | 1 | - | 352 | 5.44 |
| 16-24 | Food Products | 70 | 18 | 14 | 4 | 46 | 50 | 9 | 10 | 1 | 222 | 3.43 |
| 25-27 | Mineral Products | 146 | 5 | 10 | 9 | 4 | - | - | - | - | 174 | 2.69 |
| 28-38 | Chemicals & Allied Industries | 808 | 7 | 100 | 48 | 32 | 2 | - | - | - | 997 | 15.41 |
| 39-40 | Plastics/Rubbers | 189 | 3 | 59 | 149 | 32 | 4 | 1 | 3 | - | 440 | 6.80 |
| 41-43 | Raw Hides, Skins, Leather & Furs | 40 | - | 19 | 7 | 1 | - | 19 | - | - | 86 | 1.33 |
| 44-49 | Wood & Wood Products | 169 | 3 | 36 | 60 | 18 | - | 5 | - | - | 291 | 4.50 |
| 50-63 | Textiles | 132 | 39 | 25 | 137 | 60 | 291 | 79 | 216 | - | 979 | 15.13 |
| 64-67 | Footwear/Headgear | 14 | 2 | - | 3 | 18 | 5 | 32 | - | - | 74 | 1.14 |
| 68-71 | Stone/Glass | 130 | 14 | 34 | 40 | 23 | - | 3 | - | - | 244 | 3.77 |
| 72-83 | Metals | 470 | 47 | 102 | 43 | 79 | 1 | 6 | - | - | 748 | 11.56 |
| 84-85 | Machinery/Electrical | 734 | 39 | 80 | 90 | 66 | 14 | 1 | - | - | 1024 | 15.83 |
| 86-89 | Transportation | 122 | 4 | 21 | 8 | 46 | - | 3 | 15 | - | 219 | 3.38 |
| 90-98 | Miscellaneous | 333 | - | 1 | 41 | 45 | - | 10 | - | - | 430 | 6.65 |
| | Total | 3686 | 213 | 575 | 669 | 518 | 389 | 174 | 245 | 1 | 6470 | 100 |

Source: BIDPA, 2008

Table 3 provides a summary for SACU MFN Tariffs applied on textile, clothing and footwear imported inputs. The table shows that Botswana's imported inputs identified accounts for a total of 707 tariff lines. Of the identified imported textile inputs 696 lines (98.4 percent) attract ad valorem duties and the remaining 11 lines (1.6 percent) attract non-ad valorem tariffs, mostly mixed, which attracts 90.9 percent of the remaining 11 lines. The data further shows that textile and footwear inputs, just like TC products, are highly protected attracting duties in the range of 5 percent to 30 percent (about 581 lines, which is about 82.2 percent of total tariff lines on inputs) and only 126 lines (17.8 percent) of total tariff lines are duty free. Given that this sector is among the important sectors to Botswana's economic growth, the high tariffs on these inputs can be expected to negatively impact the economic growth and thus make the sector uncompetitive in the global markets.

Table 3: Distribution of SACU MFN Tariffs on Botswana's Textile and Footwear Inputs, 2007

| HS Code | Description | Total Number of Lines | | | | | | | | | |
|---------|--|-----------------------|------|-------|--------|--------|--------|--------|----------|-------|-------|
| | | Duty free | 0<=5 | 5<=10 | 10<=15 | 15<=20 | 20<=25 | 25<=30 | Specific | Mixed | Total |
| 50 | Silk | 10 | - | - | - | - | - | - | - | - | 10 |
| 51 | Wool, animal hair, horsehair yarn and fabric thereof | 27 | 2 | 2 | 10 | - | 11 | - | - | - | 52 |
| 52 | Cotton | 4 | - | - | 51 | - | 77 | - | 1 | - | 133 |
| 53 | Vegetable textile fibres nes, paper yarn, woven fabric | 25 | - | - | - | - | 4 | - | - | - | 29 |
| 54 | Manmade filaments | 12 | 3 | 2 | 22 | 1 | 33 | - | - | - | 73 |
| 55 | Manmade staple fibres | 15 | - | 5 | 29 | - | 68 | - | - | - | 117 |
| 56 | Wadding, felt, nonwovens, yarns, twine, cordage, etc | 1 | 1 | 13 | 12 | 15 | - | - | - | - | 42 |
| 57 | Carpets and other textile floor coverings | 0 | 3 | - | - | - | - | 20 | - | - | 23 |
| 58 | Special woven or tufted fabric, lace, tapestry etc | 6 | 4 | 3 | - | 3 | 32 | 2 | - | - | 50 |
| 59 | Impregnated, coated or laminated textile fabric | 16 | 10 | 1 | 12 | 13 | 9 | 1 | - | - | 62 |
| 60 | Knitted or crocheted fabric | - | 16 | - | - | - | 44 | - | - | - | 60 |
| 64 | Footwear, gaiters and the like, parts thereof | 10 | - | - | 1 | 10 | - | 25 | - | 10 | 56 |
| Total | | 126 | 39 | 26 | 137 | 42 | 278 | 48 | 1 | 10 | 707 |

Source: SACU Tariff Book (2007) and Authors' calculations

Furthermore, the sector's competitiveness is also impeded by high tariffs on imported textile inputs. More specifically, the firms will generally be left with no choice but to source inputs from South Africa, which is not necessarily the cheapest supplier of these products. This therefore signals the negative implication of the current tariff structure on Botswana's industrial development. Hence Botswana should advocate for a tariff policy that protects her priority export sectors by maintaining high tariffs on final products while simultaneously reducing tariffs on imported inputs to duty free or near duty free levels (BIDPA, 2008).

4. History of the Textile and Clothing Industry in Botswana

Historically, the TC sector in Botswana has been linked to regional and international trade agreements that served to attract investors. The sector exists primarily because of regional and international trade agreements and not so much because the sector has a comparative or competitive advantage in the TC production. The TC sector underwent a major restructuring process in the late 1970s and early 1980s driven by the Zimbabwean firms which relocated their businesses from Zimbabwe to Francistown (Salm, et al, 2004). Their relocation led to the growth of the industry and this has been shown by the fact that by the end of 1980 about sixty percent of foreign owned TC industries in Botswana were in the hands of Zimbabweans and most of them were exporting the majority of their production to Zimbabwe (Salm, et al, 2004).¹¹

4.1 Financial Assistance Policy (FAP)

In 1982 the Botswana government introduced the Financial Assistance Policy (FAP) aimed at providing incentives for prospective and existing investors. This policy contributed substantially to the growth of the industry by providing direct financial assistance in the form of grants to private sector firms. In addition, the FAP was aimed at creating employment opportunities

¹¹ Botswana and Zimbabwe have a preferential bilateral trade agreement that dates back to the 1956 which allows duty free trade of locally manufactured goods between the two countries.

and encouraging investment in a range of economic activities by providing incentives and subsidies. The specific objectives of the FAP among others were: to produce goods for export or to substitute for imports and diversify the economy to lessen its dependence on large scale mining, beef exports and growth of the public sector. The incentives brought about by the FAP resulted in the competitiveness of the TC industry. The incentives included among others; the FAP labour grant incentives on wages paid to unskilled or semiskilled workers, tax holidays and a training scheme to improve the skill levels of the citizens.

After reviewing the recommendations of the fourth evaluation report the government decided to phase out the FAP in 2000. The evaluation report found that there was fraud, abuse and inadequate monitoring and administration capacities in the FAP especially for small-scale activities.¹² FAP was then replaced by the Citizen Entrepreneurial Development Agency (CEDA), which was designed to increase the citizen economic empowerment by providing training, mentoring, monitoring and loans (instead of the previous FAP grants) and this led to the decline in employment and exports in the TC sector. Ever since the phasing out of the FAP, the TC sector in Botswana has faced many challenges.

5. Current State of the Textile and Clothing Sector in Botswana

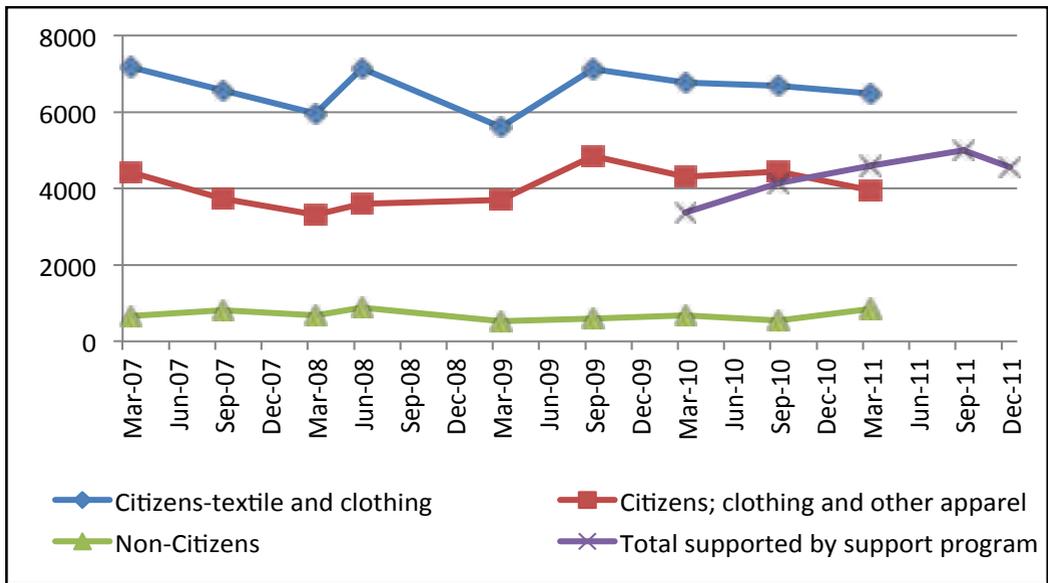
The 2007 Botswana Export Development and Investment Authority (BEDIA) Botswana Manufacture's Directory indicated that there were 60 TC firms registered in 2007, which manufactured a variety of TC products.¹³ However this was before the economic meltdown which occurred in the wake of the 2008/2009 financial crisis and there are no official figures on the number of firms that remained in operation. Based on 2009/10 data there were a total 31 textile firms that had received concessional tax rates from the Ministry of Finance and Development Planning.¹⁴

¹² The evaluation report found that 75% of the small scale FAP projects failed to survive past the period of assistance. The corresponding rates for medium and large scale projects were 45% and 35%, respectively.

¹³ 2007, is the latest year for which the data was published. The firms manufactured a wide range of products such as trousers, suits, wedding garments, blouses, track suits, graduation gowns, golf shirts, t-shirts, school wear, knitted and crocheted fabric, sweaters, jerseys (knit to shape), denim jeans, corporate wear, protective wear, cotton face cloths and kitchen towels, bedding, socks and scarves.

¹⁴ Pers com MFDP May 2012.

Figure 1: Textile and Clothing Employment Citizens and Non-Citizens, 2007 to 2011



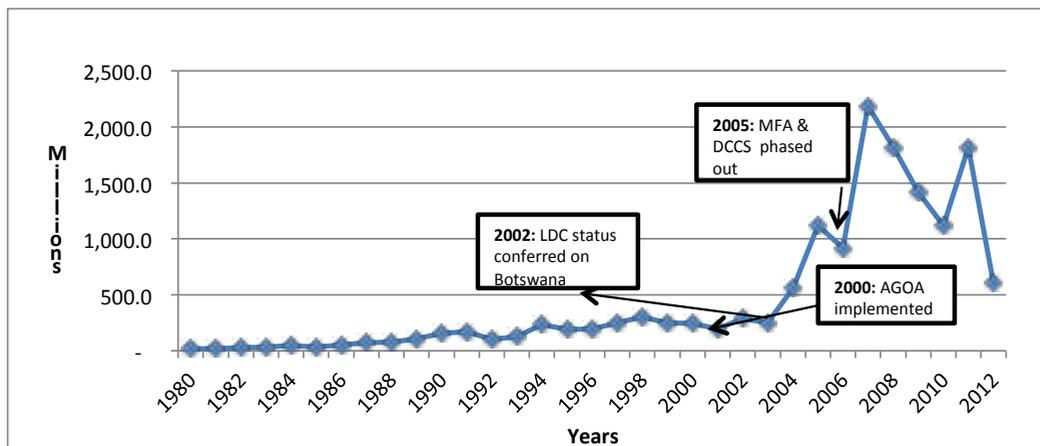
Source: Central Statistics Office (various)

Figure 1 above shows the number of employees in the sector from March 2007 to March 2011 based on official CSO data. It also shows the total number of workers supported under the Department of Industrial Affairs program for the sector. In June 2008, prior to the commencement of the international economic crisis, there were 7,142 workers employed in the sectors. By March 2009 this had decreased to 5,606.¹⁵ However by September of 2009 employment had recovered to 7,125 which was prior to the commencement of the government’s support program for the industry. Employment in the sector fell after the commencement of the support program and by March 2011, the last year for which such employment data exists, employment stood at 6,493, which is 8% below the pre-support program employment level.

In Figure 2, we examine the trends in Botswana’s textile exports during the period 1980 to 2011. Evidently, the TC exports consistently grew from 1980 to 2007, but a reversal was observed for the period between 2007 and 2010, which was followed by an improvement in exports in 2011. The TC exports increased gradually after 2002, that is after Botswana was granted the “lesser developed beneficiary” SSA country by AGOA— implying that Botswana could now export TC products using third country materials duty free to the US. The phasing out of the MFA combined with the ending of the DCCS however resulted in slightly decreased exports. The exports then peaked after the introduction of the TCIDP which replaced the DCCS, which offered duty credits just like the DCCS but was not transferable.

¹⁵ The justification that was offered for the support program for the textile and clothing sector was that thousands of workers has lost their jobs following the onset of the global economic crisis in 2008/09.

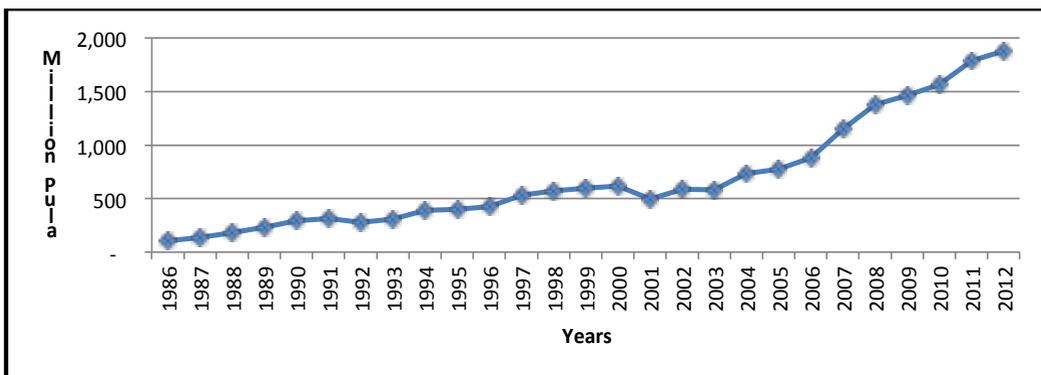
Figure 2: Botswana Textiles and Clothing Exports, 1980-2012



Source: Central Statistics Office (various)

Figure 3 shows trends in textile, clothing and footwear imports from 1986 to 2012. Imports increased substantially overtime and this may be attributed to the cheaper imports from China. However, the cheaper imports from China stimulated the informal sector as consumers benefited from lower prices.

Figure 3: Botswana Textile, Clothing and Footwear Imports, 1986-2012



Source: Botswana External Trade Statistics, various.

Direction of Trade

Table 4 shows percentages of Botswana’s TC exports to major trading partners, from 2004 to 2011. The table shows that most of Botswana’s exports are destined to South Africa, USA and to a lesser extent to Zimbabwe.

Table 4: Shares of Botswana TC Exports by Region and Partner, 2004-2011

| Region and Partner | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------|------|------|------|------|------|------|------|------|
| South Africa | 45.5 | 26.5 | 39.8 | 35.6 | 62.6 | 81.8 | 88.1 | 91.4 |
| Other SACU | 0.1 | 0.2 | 0.4 | 0.2 | 0.2 | 0.2 | 0.0 | 0.2 |
| SACU Tot | 45.6 | 26.6 | 40.1 | 35.8 | 62.8 | 82.0 | 88.1 | 91.7 |
| Zimbabwe | 0.5 | 1.5 | 0.7 | 0.6 | 1.0 | 3.9 | 2.4 | 1.2 |

| | | | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|
| Other SADC | 0.3 | 1.9 | 0.8 | 0.2 | 0.7 | 0.6 | 0.4 | 0.2 |
| SADC | 46.4 | 30.0 | 41.6 | 36.6 | 64.4 | 86.6 | 90.9 | 93.1 |
| AFRICA | 46.5 | 30.0 | 41.6 | 36.6 | 64.5 | 86.6 | 90.9 | 93.1 |
| UK | 6.2 | 15.8 | 22.9 | 39.7 | 19.5 | 2.9 | 0.0 | 0.0 |
| Other EU | 5.5 | 6.8 | 7.0 | 10.2 | 4.3 | 1.0 | 0.0 | 0.0 |
| EU | 11.8 | 22.6 | 30.0 | 49.8 | 23.9 | 3.9 | 0.0 | 0.0 |
| ASIA | 1.2 | 3.8 | 4.5 | 0.4 | 3.7 | 2.0 | 1.5 | 0.6 |
| USA | 40.1 | 43.5 | 23.9 | 13.2 | 7.9 | 7.5 | 7.5 | 6.3 |
| Rest of the World | 0.3 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Central Statistics Office (various) and Authors' calculations.

The proportion of exports to South Africa show an upward trend from 45.5% in 2004 to 91.4% in 2011, while exports to the US (which Botswana enjoys the AGOA preference) have significantly decreased over the years, from 43.5 percent in 2005 to 6.3 percent in 2011. This may be because, over the years the number of AGOA beneficiary firms reduced due to the challenges that the sector experiences¹⁶.

Table 5 shows shares of TCF imports from major trading partners, between 2004 and 2010. Imports from Asian countries, particularly from China and Hong Kong increased over the years. This may be because the two countries have a comparative advantage to most of the countries in TFC production. The table also shows that Botswana sources most of her TCF products from South Africa.

Table 5: Shares of Botswana TCF Imports by Region and Partner, 2004-2010

| Partner and Partner | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| South Africa | 88.0 | 81.2 | 83.2 | 79.4 | 77.1 | 84.7 | 85.5 |
| Rest of SACU | 0.1 | 0.3 | 0.5 | 0.6 | 0.3 | 0.2 | 0.3 |
| SACU Tot | 88.0 | 81.4 | 83.7 | 80.0 | 77.4 | 84.9 | 85.7 |
| Zimbabwe | 1.8 | 1.8 | 1.3 | 1.2 | 0.6 | 0.3 | 0.8 |
| Rest of SADC | 0.6 | 0.7 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 |
| SADC | 90.4 | 83.9 | 85.3 | 81.3 | 78.1 | 85.3 | 86.7 |
| AFRICA | 90.7 | 84.0 | 85.3 | 81.4 | 78.2 | 85.3 | 86.8 |
| EU | 0.6 | 0.8 | 0.9 | 0.8 | 0.9 | 0.8 | 0.7 |
| China | 4.9 | 8.6 | 7.8 | 10.3 | 11.9 | 8.2 | 4.8 |
| India | 1.0 | 1.0 | 1.5 | 1.5 | 1.0 | 0.6 | 0.7 |
| Hong Kong | 1.3 | 3.0 | 1.9 | 3.3 | 5.0 | 3.0 | 3.6 |
| Rest of Asia | 1.4 | 2.4 | 2.4 | 2.0 | 2.8 | 1.9 | 3.3 |
| ASIA | 8.6 | 15.1 | 13.6 | 17.7 | 20.7 | 13.8 | 12.3 |
| Rest of the world | 0.1 | 0.2 | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 |

Source: Central Statistics Office (various) and Authors' calculations.

¹⁶ See footnote number 9.

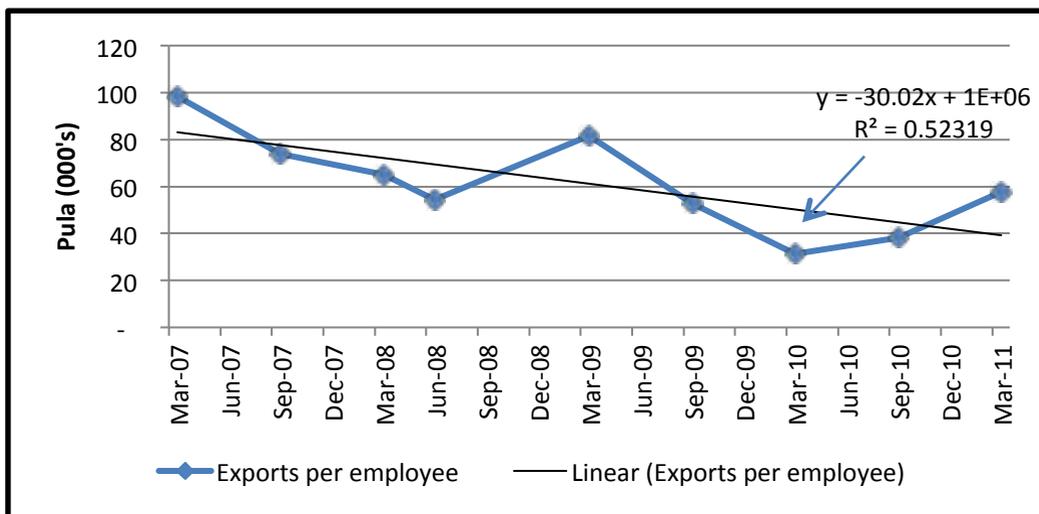
Recent Government Policy

The Government of Botswana (GoB), through the Ministry of Trade and Industry developed a rescue plan to resuscitate the sector owing to concerns over the job losses and declining production in the sector. A total of P38 million was set aside for the support measure covering a period of 2 years, i.e. 2010 to 2011. Each firm was given a subsidy of P20 per day to be paid to citizen employees in the industry on reimbursement basis and industry sources say in some instances the government paid between 30 to 100 percent of wages.¹⁷ The programme has benefited 237 companies comprising of 209 small and micro, 15 medium and 13 large scale companies.¹⁸

The industry suggested that the support measure created more than 2000 jobs in two years (2010 to 2011) and this included workers who were retrenched in 2008 due to the recession and were re-employed after the industry was given the rescue package.¹⁹ The average total employment in the sector was 2816 in January 2010 that was covered by the support measure and at the end of 2011 it was 5707, of which 90 percent were women, showing that the

scheme has positively benefited the sector.²⁰ Large firms accounted for 69.6 percent of total employment, medium scale 15.3 percent and 15.1 percent of employees were in the small and micro firms; the support measure expired at the end of 2011. Figure 4 shows the exports per worker (an estimate of productivity) from March 2007 to March 2011 and the figure shows that while productivity fluctuated during the period under consideration it was in secular decline.²¹

Figure 4: Exports per employee, 2007 Q1 to 2011 Q1



Source: Central Statistics Office (various) and Botswana External Trade Monthly Digest, November 2011

¹⁷ Pers. communication with the Chairman of Botswana Textile and Clothing Association.

¹⁸ A report to the National Committee on Trade Policy and Negotiations (NCTPN) by the Technical Committee on Export Development and Investment (TCEDIP).

¹⁹ Pers. communication with the Chairman of Botswana Textile and Clothing Association.

²⁰ Note that this number refers to only those supported by the support measure; it is not the total number of employees in the sector.

²¹ Only exports were taken into consideration and sales for the domestic market were not taken into consideration due to lack of data.

The TC industry has since submitted a proposal to GoB to extend the support measure for a further five years starting from January 2012. The industry argues that a further injection of cash will resuscitate the sector and no further jobs will be lost. It should be noted that there appear to be substantial discrepancies between the number of firms in the TC industry reported by BEDIA i.e. 60 in 2007, the 31 firms receiving the benefits of DAOs in 2010 and the number of firms receiving cash assistance i.e. 195 in November 2011.²² By December 2011 the number of firms having received assistance from the program had risen to 237.²³ In our view the program has been poorly designed, rather than being a focused intervention on those firms suffering from the decline of export markets the government wage subsidy was extended to all firms in the industry, including micro-enterprises. If the intent of the policy is to develop a sustainable clothing export industry then the intervention was not properly designed from the outset and clearly a productivity focused program similar to the South African Clothing and Textiles Competitiveness Improvement Programme (CTCIP) would have been more appropriate.

Nevertheless, it should be noted that exports increased from P1.4 billion in 2009 to P1.8 billion in 2011. Whether this can be directly attributable to the government subvention of P38 million over the period cannot be readily determined. However, to the extent that the subsidies available to firms lowered costs and increased competitiveness they would have expected to have the result predicted. It is understood that the proposed extension includes wide ranging options which government would consider as part of a broader strategy to help the TC sector to contribute meaningfully to the country's economic growth. The extension also proposed the adoption of some of the production incentives schemes such as the South African CTCIP. Under the CTCIP-type of assistance, the government would provide long term technical assistance and value chain support, SME training and offer export support.

6. Conclusions

This paper considers the performance of the Textile and Clothing (TC) sector in Botswana and reviews various national and international incentive schemes aimed at developing TC exports. The analysis shows that domestic policies and preferential trade regimes helped establish the sector and still play a central role in its continued operation.

Since the phasing out of the FAP, the TC sector in Botswana has faced many challenges. Nonetheless in 1993 the TC sector received a major boost after the introduction of the DCCS by South Africa. The tradable DCCS was one of the main export incentives available to the TC sector for trade into the SACU region. However, these undermined the SACU clothing industry and after twelve years the DCCS was phased out and replaced by the TCIDP in 2005, which stopped the tradability of the duty credit certificate.

The TC sector only started to grow robustly after Botswana was granted the LDC status by the US under AGOA though export growth has been negative over the last five years. Exports to the EU which were in 2007 the mainstay of the industry have all but totally collapsed by 2011. The last remaining export market of any significance to Botswana is South Africa. Data shows that the sector did not do well after the 2008/09 financial crisis, where firms laid off large parts of their workforce and some relocated back to their home countries. As a result of this, government developed a special support programme to resuscitate the sector. The

²² Pers. Com. with the Chairman of Botswana Textile and Clothing Association.

²³ Pers. Com. Department of Industrial Affairs, April 2011.

special support on the sector set aside a total of P38 million covering a period of 2 years (2010 to 2011). While the program was not well designed in that larger exporting firms were not targeted exports increased from P1.4 billion in 2009 to P1.8 billion in 2011. Whether this can be directly attributable to the government subvention of P38 million over the period (2010 to 2011) cannot be readily determined.

The Botswana TC sector has not performed well. Given the collapse of exports to the US and EU, its long term viability is highly questionable. However if the government wishes to develop what remains as the export sector then, policies and intervention need to be put in place to secure the sector's productivity and competitiveness. Government needs to first address whether the sector will survive the inevitable further erosion of trade preferences and if so, the interventions need to be revised and focused on those firms best able to survive in the longer term. The government should then come up the industry programmes that support the long-term growth and success of the sector thus contributing to the socio-economic development of the country. Furthermore, research should also be carried out to identify opportunities, limitations and increase the overall knowledge of the sector to enable potential investors to actively participate in the sector.

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