



TRADE & INDUSTRIAL POLICY STRATEGIES

DISCUSSION PAPER

**A DEVELOPMENTAL REGIONALISM APPROACH
TO THE AfCFTA AND RULES OF ORIGIN FOR
THE COTTON, TEXTILES AND APPAREL
REGIONAL VALUE CHAIN**

Faizel Ismail

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TIPS is a research organisation that facilitates policy development and dialogue across three focus areas: Trade and Industrial Policy, Inequality and Economic Inclusion, and Sustainable Growth

info@tips.org.za
+27 12 433 9340
www.tips.org.za

Faizel Ismail
TIPS Research Fellow

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ABBREVIATIONS

AfCFTA	African Continental Free Trade Agreement
AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CMT	Cut, Make and Trim
DFIs	Development Finance Institutions
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GSP	Generalised Scheme of Preferences
GVCs	Global Value Chains
HS	Harmonized System
LDCs	Least Developed Countries
LLDCs	Landlocked Least Developing Countries
OEMs	Original Equipment Manufacturers
RECs	Regional Economic Communities
RoO	Rules of Origin
RTA	Regional Trade Agreement
RVCs	Regional Value Chains
SADC	Southern African Development Community
SIDS	Small Island Developing States
UK	United Kingdom
US	United States
USMCA	United States-Mexico-Canada Agreement
WTO	World Trade Organization

1. INTRODUCTION

Bilateral or regional trade agreements (RTAs) are essentially preferential in nature and a deviation from the World Trade Organization (WTO) principle of most-favoured-nation or non-discrimination, as they are intended to benefit signatory countries. However, the agreement could be abused by competitive third-countries that use a member country of the RTA (that has a low external tariff) as a springboard to penetrate the entire regional preferential market. Such a scenario could undermine the industries of other countries within the RTA. To avoid such a scenario, free trade agreements (FTAs) or RTAs use rules of origin (RoO) to determine the national origin of the product and to establish the thresholds for local content or value-added before the product is re-exported.

Twenty-first-century RTAs, such as the Association of Southeast Asian Nations (ASEAN), the United States-Mexico-Canada Agreement (USMCA) and even the European Union (EU), are about more than simply opening markets between preferred trading partners. They are also intended to encourage and incentivise investment, particularly in higher value-added manufacturing and services and, by doing so, simultaneously, stimulate development of regional value chains (RVCs). Thus, in many cases, the RoO serve a dual purpose: to increase intra-regional trade flows, and to stimulate investment in higher-value-added production and regional production value chains. Most modern RTAs include a range of other complementary trade measures that focus on harmonising and simplifying customs regulations to reduce trade costs and improve trade facilitation. In addition, RTAs also attempt to create a more conducive environment for investment by including rules, for example, on investment, intellectual property rights and competition.

Issues related to equity and balance within FTAs and have created a great deal of debate across the world, especially in the past decade, with then US President Donald Trump criticising “free trade” rules in the WTO and North American Free Trade Agreement (NAFTA) as being unfair to the US. The British exited from the EU, in a process called “Brexit”, as they decided that the rules on the free flow of goods, services, capital and labour had more costs than benefits for the United Kingdom (UK) (Ismail and Grunder, 2020). The crisis of integration in the EU over the past decade has been attributed to a lack of solidarity and the rise of mercantilist or interest-driven approaches by the larger economies (Stiglitz, 2012). In Africa, there is a long-standing debate over how a region of 55 economies (with differing economic development levels) can ensure that poorer and weaker economies – specifically the continent’s 34 Least Developed Countries (LDCs), 16 Landlocked Least Developing Countries (LLDCs) and six Small Island Developing States (SIDS) — can also benefit from regional integration. In this context, several researchers, scholars, and international economic organisations have called for a “developmental regionalism” approach to regional integration in Africa (UNCTAD, 2013; UNECA, AU and AfDB, 2017; Davies, 2019, 2021; Ismail, 2021).

The concept of “developmental regionalism” argues for an approach to regional integration that is based on a heterodox economic view of the world and an idealism that incorporates values or solidarity as an essential ingredient to achieve this in Africa. This analytical framework calls for

regional integration in Africa, led by the African Continental Free Trade Agreement (AfCFTA), to be built on co-operation among African countries in a regional integration framework on four parallel and interconnected pillars: a) co-operation on building mutually beneficial trade integration (fair trade integration); b) cooperation on industrial development and upgrading in regional value chains (transformative industrialisation); c) cooperation on investment in cross-border infrastructure and trade facilitation; and d) cooperation on the building of democracy, good governance and peace and security (Ismail, 2021). This is an important context for the discussion underway among AfCFTA negotiators on RoO.

There are different academic and policy approaches to establishing RoO. On the one hand, policymakers can adopt a narrow trade perspective prioritising the objective of increasing trade efficiency and reducing trade costs for manufacturers. On the other hand, the developmental objectives of the RTA, such as transformative industrialisation and the creation of regional value chains, could be prioritised. A narrow approach to RoO requires fewer variables, while a broader approach is more complex and will require balancing different policy objectives. The latter approach also calls for an inclusive approach to trade that enhances the participation of poorer and more vulnerable African economies in the AfCFTA.

Although the recent literature on the role of RoO in the AfCFTA does recognise the ambitions of member countries to industrialise, very little attention is paid to the creation of RVCs to support transformative industrial and economic development goals. (Tsowou and Davis, 2021; Gourdon et al., 2020c). Recently, a comprehensive report on RoO produced by UNCTAD (2019) titled *Economic development in Africa report 2019: Made in Africa – Rules of origin for enhanced intra-African trade*, identifies the key challenges to Africa's industrialisation and explores how the AfCFTA can play a meaningful role in driving transformative industrialisation on the continent through developing RVCs. However, the report ignores the negative impacts of relaxed and liberal RoO on existing industries in Africa that could be undermined by cheaper imported intermediate products from third countries (UNCTAD, 2019).

One of the reasons for this erroneous analytical trend in the literature is the conflation between the protectionist role of RoO in unilateral preferential schemes — such as those adopted by the EU and the US for third-country fabric — and how RoO can be used in regional integration processes to advance the objectives of “developmental regionalism” (Melo and Portugal-Pérez, 2014; Gourdon et al., 2020c). Moreover, the mainstream literature is critical of the use of RoO in regional arrangements such as USMCA — which substituted NAFTA in 2020 — due to the protectionist approach by the US. Thus, this paper first argues that while the experiences of NAFTA/USMCA can be criticised for being overly protectionist, it does help in understanding how the more stringent RoO (double transformation or 70-75 value-added) in NAFTA and USMCA have been more successful in mobilising investment and creating regional supply chains across North America (Gantz, 2020; Reinsch et al., 2019). Second, this paper argues that both increasing the efficiency of intra-regional trade in Africa and the need for trade to support transformative industrialisation are critical for the successful implementation of the AfCFTA. It is therefore from a “developmental regionalism” lens that this paper calls for a developmental approach to the

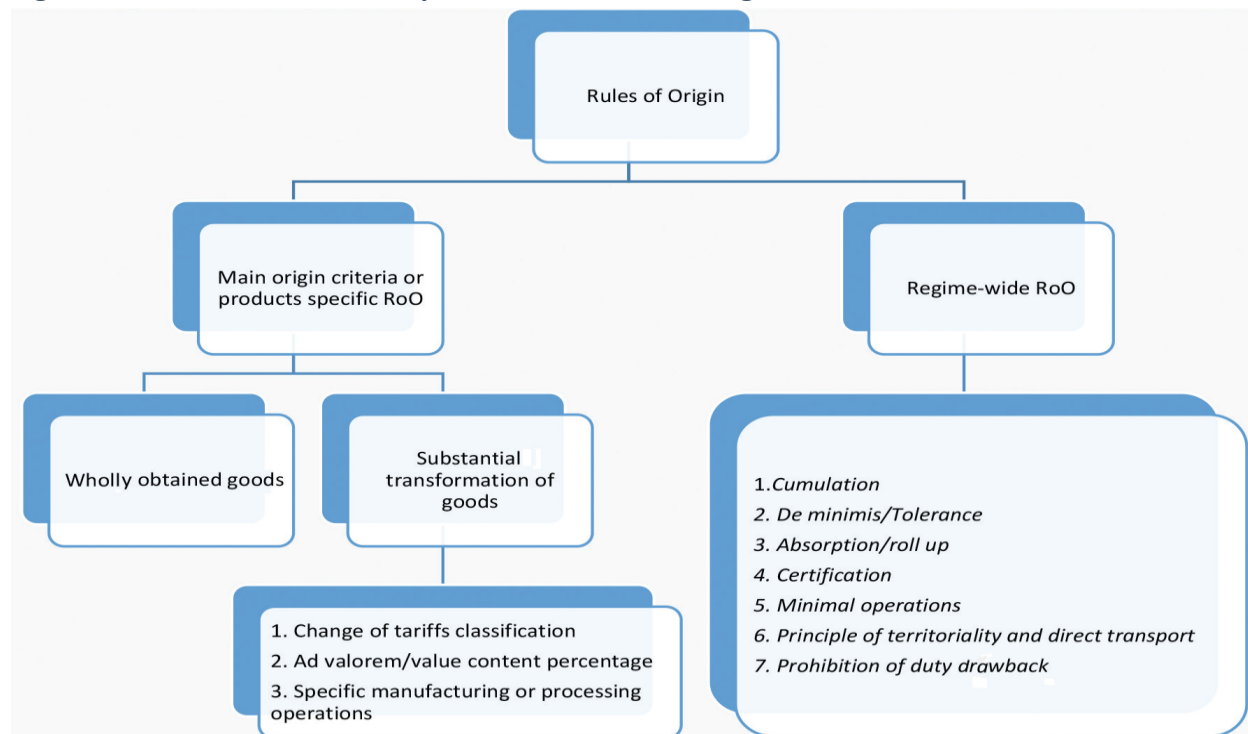
current debate on RoO in Africa’s cotton and textile apparel sector (Ismail, 2021; Davies, 2019, 2021; UNCTAD, 2013; UNECA, AU and AfDB, 2017).

The second section of this paper outlines the different types of RoO, provides a brief overview of the approaches to RoO adopted by Africa's Regional Economic Communities (RECs), and explores the mainstream academic literature on RoO in the automotive, textiles and apparel sectors. Following this, the third section highlights current trends in the cotton, textile and apparel production and regional value chains in Africa. The fourth section argues that the AfCFTA should adopt a developmental regionalism approach to its RoO negotiations in the cotton, textiles and apparel RVC. In this context, some recommendations for policymakers and negotiators are also provided in this section. Section five concludes the discussion by calling for a balanced approach to the debate on the RoO for the cotton, textiles and apparel sector in the AfCFTA.

2. TYPES OF RULES OF ORIGIN

There are different types of rules of origin. Two International Trade Centre (ITC) Working Papers, *The landscape of rules of origin across African preferential trade agreements: some implications for harmonisation* (Gourdon, 2020a) and *Mapping rules of origin across regional trade agreements with ITC's rules of origin facilitator* (Gourdon, 2020b), and UNCTAD’s (2019) comprehensive report on the RoO provide a useful description of the common uses of RoO in preferential trade agreements (Gourdan et al, 2020a and Gourdan et al, 2020b; UNCTAD, 2019). A summary of the definitions and descriptions of the different types of RoO outlined by UNCTAD is provided below.

Figure 1: Criteria to determine preferential Rules of Origin



Source: UNCTAD 2019; Tsowou and Davis, 2021.

Governments have applied different criteria, rules and approaches to determine the economic origin or national source of a product. Broadly, there is a distinction between two main types of rules of origin: a) **product-specific rules** and; b) **regime-wide rules**.

While product-specific rules apply to a specific sector and specific product, regime-wide rules of origin apply to all products and/or sectors. Some of the rules allow for leniency concerning the main criteria/product-specific rules (such as cumulation). Cumulation relates to non-originating materials imported from a fellow member of a preferential trade agreement or a specific third-country. In other words, cumulation allows for non-originating inputs to qualify as originating if they are imported from other members of a free trade or preferential trade agreement or third-countries specifically mentioned in the agreement.

A distinction is made between bilateral, diagonal and full cumulation (see Figure 4 in Annexure). Bilateral cumulation allows materials imported from a fellow member of a free trade area to be treated as originating. Diagonal cumulation is similar but extends to more than two members of the free trade area. This type of cumulation may also be called regional cumulation. The most lenient form of cumulation is full cumulation, which allows a country which is part of a free trade area to consider working and processing procedures to be carried out in any member country. This, in turn, allows for and facilitates the creation of regional value chains (UNCTAD, 2019).

There are two basic criteria for determining the origin of products, namely: **wholly obtained** and **substantial transformation**. **Wholly obtained** criterion applies to products that have been entirely grown, harvested or extracted from the soil in the territory of a member country or have been manufactured exclusively from such products. **Substantial transformation** or sufficient working or processing criterion is determined according to three sub-criteria (outlined below) that can be applied separately or in combination:

- a) **Change of tariff classification:** According to this criterion, if an imported input is processed to a certain degree, this will result in the exported product being classified under a different tariff classification than all of its imported inputs. This implies that the final product must be of a different tariff classification than the imported goods used in its production. The rule is usually specified with reference to a level in the Harmonized System (HS), that is, either at the chapter, heading, subheading or tariff line level.
- b) **Ad valorem percentage:** This criterion refers to the percentage of value addition that must take place in an exporting country or within a specified region. It can be expressed as either the minimum share of value addition that must occur or material content that must originate in an exporting country or region; or as the maximum share of non-originating value addition. Non-originating value refers to the value of imported inputs in relation to the value of the product.
- c) **Specific manufacturing or processing operations:** This criterion relates to the specific manufacturing or processing operations required to confer originating status. Most regimes use a combination of all three (UNCTAD 2019; Tsowou and Davis, 2021)

UNCTAD (2019) and Tsohou and Davis (2021) provide a useful overview of the use of RoO across the various African RECs (see Table 1 in Annexure). The East African Community (EAC) does not have a general ad valorem percentage criterion applicable to all products, but it has a list of product-specific RoO. The change of tariff classification criterion consists mainly of specifications at the chapter and heading levels. Both the Economic Community of Central African States (ECCAS) and the Economic Community of West African States (ECOWAS) apply a uniform percentage across all products for the ad valorem percentage criterion, amounting to a minimum of 30% of regional value content. The Southern African Development Community (SADC) does not apply a general ad valorem percentage criterion. The change of tariff classification criterion consists mostly of specifications at the chapter and heading levels. While these RECs allow for diagonal cumulation, SADC allows for full cumulation (UNCTAD, 2019). In general, some scholars, such as Tsohou and Davis (2021), argue that RoO is not a perfect instrument to determine domestic or originating content. In addition, it does not always prevent imports from outside the region from obtaining preferential access into the region – even if they do not meet the requirements and they incentivise investment and production of the product (UNCTAD, 2019).

3. THE ACADEMIC LITERATURE ON RoO AND RTAs IN THE AUTOMOTIVE AND COTTON, TEXTILES AND APPAREL REGIONAL VALUE CHAIN IN AFRICA

The literature on RoO has tended to adopt an approach that prioritises efficiency, the need to reduce trade costs, and the need to increase the speed and quantity of trade across borders (Estevadeordal et. al., 2011; Melo and Portugal-Pérez, 2014; Hoekman and Inama, 2018). These cited scholars are also sceptical of regional free trade agreements that create preferential trade between members of the “club” and discriminate against third countries. Critics argue for a type of regionalism that they refer to as “open regionalism” (Bergsten, 1997). Fred Bergsten (1997) summarised the debate about open regionalism, that was taking place within APEC (Asia-Pacific Economic Cooperation) at the time, which he saw as a third option between regional integration and multilateralism. In this view the members of the regional integration project would strive to simultaneously open their markets to each other and also to the rest of the world. In the addition, he called for the regional arrangement to be open to all members.

There are three types of research in the contemporary literature on RoO.

First: Some researchers and scholars have emphasised using the General Agreement on Tariffs and Trade (GATT) and/or the WTO and multilateral negotiations to simplify and harmonise RoO and facilitate freer global trade (Hoekman and Inama, 2018).

Second: Another stream has critiqued the contradictory approaches adopted by the EU and US in providing poor developing countries with unilateral preferential access to their markets and adopting stringent RoO (De Melo and Portugal-Perez, 2014).

Third: The third group of scholarship has been critical of the protectionist nature of regional integration agreements, such as NAFTA/USMCA’s RoO (Reinsch, 2019; Gantz, 2020). Amid US-China trade tensions, the original NAFTA RoO became more stringent with the establishment of USMCA in 2020. This was mainly spearheaded by then US President Donald Trump to limit

imports of Chinese intermediate goods by members of the USMCA and to encourage investment by EU and Japanese multinational corporations within NAFTA/USMCA.

There is a gap in the literature on how the RoO can support regional integration among developing countries. The UNCTAD report *Economic development in Africa Report 2019: Made in Africa – Rules of origin for enhanced intra-African trade* offers some tentative policy recommendations. These policy proposals will be critically discussed in the rest of this paper. First, a brief overview is provided of the role of RoO in the auto sector in North America. As the focus of this paper is on the cotton, textiles and apparel sector, this discussion will focus mainly on the lessons for the use of RoO in the cotton, textiles and apparel sector in Africa. A fuller discussion on the cotton, textiles and apparel sector then follows.

The role of RoO in NAFTA and the USMCA in building automotive regional supply chains

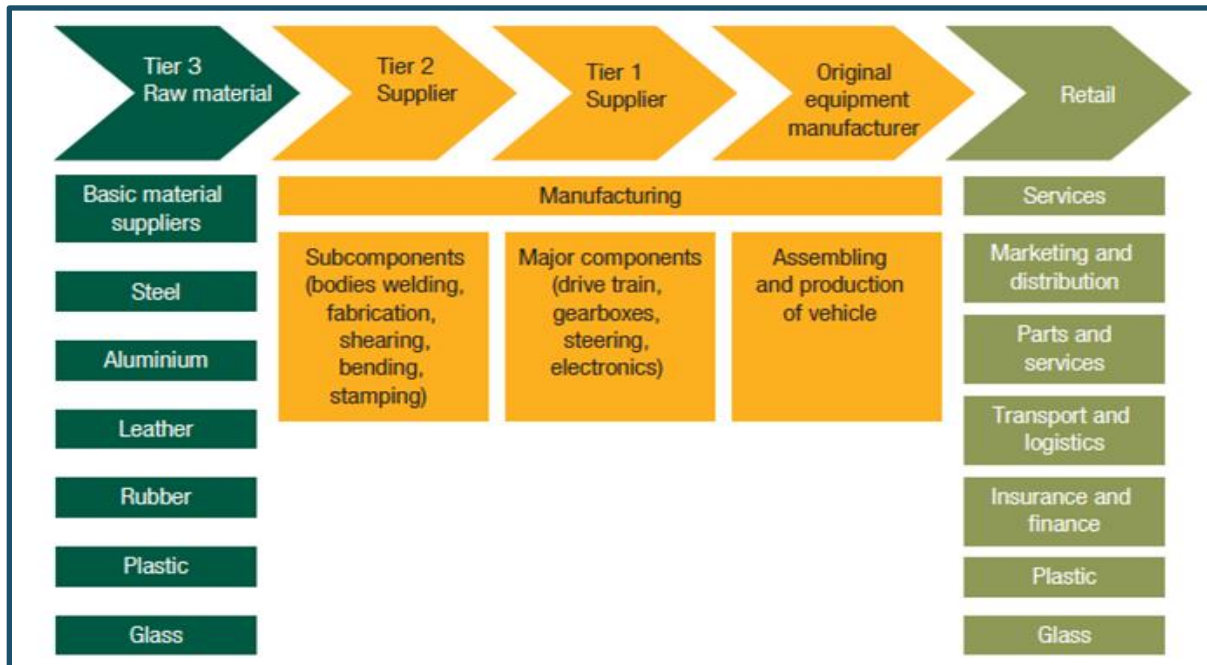
Then US President, Donald Trump used the renegotiation of NAFTA and the new USMCA to tighten the RoO, particularly in the automotive sector, to reduce the imports of Chinese-made components into the North American market, especially via Mexico. Stricter rules of origin have been applied to build a deeper and more integrated regional value chain in North America. Although the USMCA aims to reduce Chinese imports in the North American auto sector, it seeks to also deepen trade and investment across the North American market (Gantz, 2020). This agreement has its origins in the US-Canada auto pact of 1965. Trade between the two countries consequently grew and deepened with the US-Canada FTA in 1989 and, in 1994, Mexico was incorporated into the NAFTA. Since then, investment in Mexico has grown significantly.

In 2017, Mexico produced 20% of North American cars (Reinsch, 2019). Between 1993 and 2017, US imports of cars from Mexico increased from 228 500 to 1.24 million. European and Japanese automakers have invested about 90% of their total investment in Mexico's auto assembly plants. Auto parts can cross the borders up to eight times before final assembly in Mexico, Canada, or the US. As such, the NAFTA has facilitated the creation of complex supply chains in the North American auto sector. NAFTA has enabled the US, Mexico and Canada to combine their comparative advantages and become a highly competitive global producer (17.2 million vehicles produced in 2018 in USMCA) and exporter of auto vehicles and parts.

The creation of the USMCA tightened the NAFTA RoO, which required that vehicles meet a 62.5% regional value content. Under USMCA, which came into effect on 1 July 2020, light vehicles and trucks need to contain a 75% regional value content and a 70% regional value content is required for heavy trucks (Gantz, 2020). The USMCA agreement also stipulates that a 75% regional value content is needed for core components. It also introduced a controversial labour value content of a minimum of US\$16 per hour wages for 40%-45% of a vehicle's content (Reinsch, et al, 2019). In addition, USMCA also requires that 70% of the steel and aluminium used in an automobile must be sourced from North American suppliers.

A regional automotive supply chain in Africa

Figure 2: Automotive value chain



Source: UNCTAD, 2019: 152.

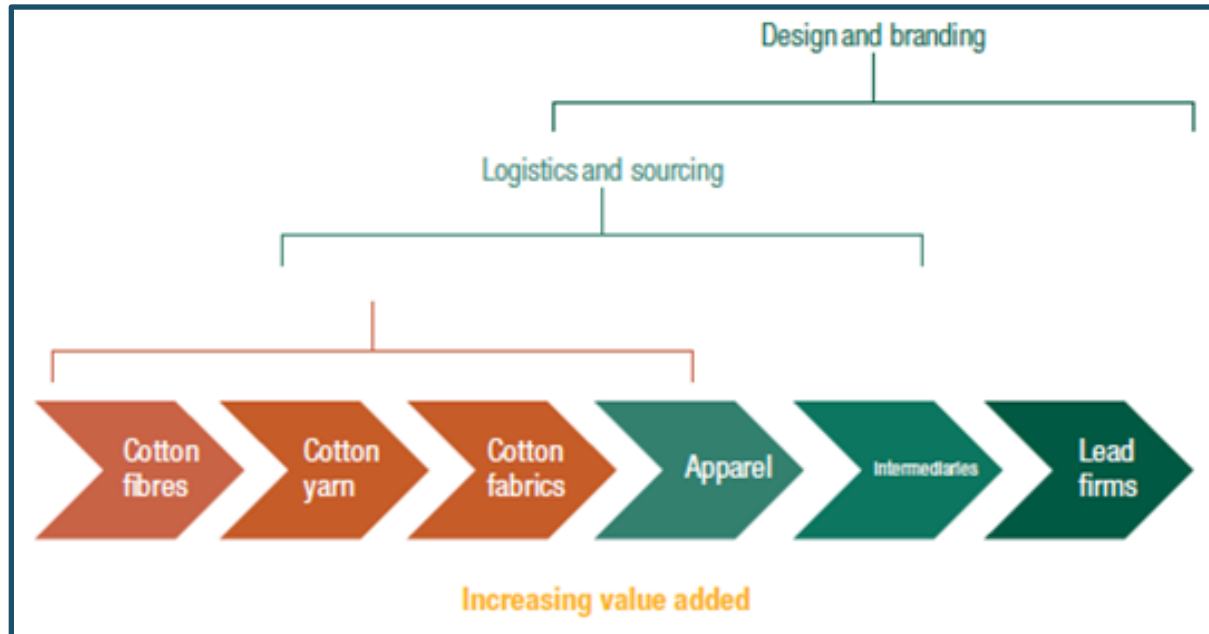
Africa plays a peripheral role in the automotive industry. In 2017, Africa accounted for 1% of world vehicle production and 1.2 % of sales (mainly of passenger cars), with Egypt, Morocco and South Africa representing the lion's share. The automotive industry in Africa remains extremely outward-oriented, especially for passenger cars, with the regional market accounting for less than 10% of exports and 2% of imports. In parts and components, some African countries, especially in Northern and Southern Africa, are starting to harness the opportunities to connect with the automotive value chain as Tier 2 and Tier 3 suppliers.¹ However, progress is slow; only 6% of overall automotive products imported in Africa are sourced from within the continent. The AfCFTA could be a game changer for the automotive sector in Africa, given its heavy reliance on economies of scale and its potential for creating strong regional supply networks (Black et al, 2020). Developing the automotive industry in Africa strongly correlates with preferential trade agreements, which shape sourcing decisions along the value chain. This is particularly the case in countries such as Morocco and South Africa. Their respective automotive industries are primarily geared towards exports to developed-country markets in which RoO and bilateral cumulation play an important role. Going beyond existing regional economic communities to consolidate the continental market could, thus, boost the attractiveness of Africa for original equipment manufacturers (OEMs) and Tier 1 and Tier 2 suppliers with a pan-African focus (Black et al, 2020).

¹ Tier 1 suppliers are companies supplying parts or systems directly to OEMs. Tier 2 firms supply parts that are used in cars, even though these firms do not sell directly to OEMs. Tier 3 refers to suppliers of raw and close-to-raw materials, such as like metal or plastic (Amatech, 2017).

The potential for Africa's cotton, textile and apparel regional value chain

The textiles and apparel stages of production are illustrated in Figure 2. Textile production (i.e. yarn and spinning), ranges from the cultivation and production of cotton fibres to yarn spinning and weaving. The fabric that is then produced, together with other inputs such as buttons and zippers, is used for apparel production. Textile production produced upstream is a relatively capital-intensive industry with significant economies of scale, unlike the apparel segment, which tends to be more labour-intensive.

Figure 3: Cotton-apparel value chain



Source: UNCTAD, 2019: 141

Despite the decline in its market share, China remains the largest apparel exporter, with an export value of U\$152 billion. It represents almost a third (30.71%) of the global export market. Following China, the other large apparel-exporting countries in market share are Bangladesh (6.70%), Vietnam (6.26%), India (3.48%) and Turkey (3.32%) (Whitfield et al, 2021). Importantly, all of these countries have a significant number of local firms producing and exporting apparel, with local firms dominating the export sector in all of these countries, except for Vietnam (Whitfield, et al, 2021).

African countries constitute about 6% of the global cotton lint production, about 5% of global exports of cotton, and 2% of global apparel exports (HS Chapters 61 and 62) (UNCTAD, 2019). Africa imports as much as 72% of its cotton fabrics. For several African countries such as the "cotton four" – Benin, Burkina Faso, Chad and Mali – cotton is a crucial export and source of income for the local population. Apparel exports constitute a significant percentage of manufacturing exports for nine African countries: Lesotho (52.2% per cent), Madagascar (19.4% Mauritius (29.7%), Morocco (12.7%), Tunisia (15.6 per cent), Swaziland (9.2 per cent), Cabo Verde (8.6 per cent), Egypt (5.5 per cent), and Kenya (5.2 per cent) (UNCTAD, 2019).

Except for South Africa, which exports 50% of its textiles and clothing to other African countries, the African textile and apparel industry primarily exports to global markets, with only a small share of exports dedicated to local or regional markets. For example, Morocco and Tunisia each export only 2% of their textiles and clothing to the African market. The continent has become increasingly dependent on imported textiles, of approximately US\$20 billion in 2019, accounting for a negative trade balance in the sector (Mold and Chekwoti, 2021). In contrast, on the demand side, around two-thirds of world clothing imports are received by the US and the EU. Consequently, it is primarily the high-income regions of the world (including emerging Asia) that determine the level and nature of the demand for garments.

The AfCFTA provides a major opportunity for intra-African trade because of the significant preferential margins between Africa's sub-regions. AfCFTA negotiators have three options for developing RoO in the cotton, textile and apparel sectors, namely: triple transformation, double transformation, and single transformation. Each of the options are briefly explained below:

- Under triple transformation (which is used in the NAFTA), the fibre, fabric and garment must be processed within the region for the final good to be eligible for preferential treatment (cotton → yarn → fabric → apparel).
- Under the double transformation requirement, two stages of production must take place in the region concerned (yarn → fabric → apparel) for origin determination.
- Under the single transformation requirement, only one production step needs to take place within the region for the product to acquire originating status (fabric → apparel).

The negative effects of strict RoO applied by the EU and the US to LDC exports in these markets under preferential rules, such as the EU Generalised Scheme of Preferences (GSP) and the African Growth and Opportunity Act (AGOA), was widely criticised by academic writers (UNCTAD, 2019). The argument made was that LDCs were prevented from taking advantage of preferential tariffs due to the strict RoO on imported textiles, and that more lenient RoO would instead support the competitiveness of apparel industries by allowing them to use the cheapest inputs, regardless of their origin. Due to this pressure the EU reformed its rules in 2011. The new rules of origin applied to LDCs under the reformed EU (the Everything But Arms initiative), which changed from a double to single transformation, resulting in significant increases in LDCs exports to the EU and the use of these preferences (UNCTAD, 2019). Similarly, other researchers found that adopting the third-country fabric rule under the AGOA demonstrated how a change from double to single transformation significantly boosted exports of eligible African countries to the US (Melo and Portugal-Pérez, 2014).

These writers also use the evidence on the efficacy of the single transformation RoO in the case of AGOA, and the renewed EU GSP, to argue that single transformation is more beneficial for African apparel exports. These examples, it is argued here, do illustrate how LDCs can increase their exports to third countries. However, these cases do not provide insights for the policy objective of increasing intra-regional African trade, especially that of higher-value-added manufactured goods.

4. CURRENT TRENDS IN COTTON, TEXTILE AND APPAREL PRODUCTION AND REGIONAL VALUE CHAINS IN AFRICA

A large multi-country study of the cotton, textile and apparel sector in Africa was undertaken by Whitfield et al (2021). This study explored the potential of African countries to deepen industrialisation and build regional value chains. Four types of countries emerge from the academic literature: a) Mauritius/Madagascar and South Africa, Lesotho and Eswatini – regional supply chains; b) Kenya and Ethiopia – low-income, weak and no local firms c) North African countries – Morocco and Egypt – producing for export d) cotton-producing countries.

These African country types are similar to those identified by Whitfield et al, (2021) in Southeast Asia. For example, Cambodia, Laos and Myanmar are grouped in the second category – low-income, weak, or no local firms. Indonesia and Thailand are grouped under the second category as they have a substantial share of local apparel export firms that dominate exports, but they have no large and diversified textile base. Vietnam, which has a substantial share of exports into the EU and the US has separate bilateral agreements with the EU and the US, and could be argued to fall into category three. There is no clear category four found in SE Asian.

Due to this paper's limited scope, only the first and second categories are discussed below. These two categories are the most relevant for our discussion of regional supply chain development and the development of significant local production of textiles. The discussion briefly reviews the current status of production and trade of Lesotho, Eswatini and South Africa, Mauritius and Madagascar, Kenya and Ethiopia. By discussing the questions below for each of these regions/economies, researchers and policymakers could gain insights into how to build regional value chains and attract investment in textile production. In addition, some lessons from the ASEAN region will be identified for African manufacturers and policymakers to draw on or learn from.

How successful is the Lesotho, Eswatini and South Africa regional value chain?

Southern Africa has the most advanced regional value chain, with Zambia and Zimbabwe exporting mainly cotton fibres and Lesotho, Mauritius, South Africa and Eswatini trading in cotton yarn and fabrics (Whitfield et al, 2021). Lesotho offers an interesting case study in regional value chain development. In the early 1990s, Lesotho only had a few textile and apparel factories. Its industry grew rapidly, mainly foreign firms exporting back to the US, to become the largest private-sector employer in the country, providing more than 50 000 jobs mainly for women. However, after the 2008/09 global recession, there was a significant decline. In recent years, the recovery of the textile industry in Lesotho is mostly a result of the government reorientating its trade and building a regional value chain (Whitfield et al, 2021).

The manufacturing sector grew by 34% between 2014 and 2019, mainly because of a tripling of textile and apparel exports to South Africa, which helped offset the decline in exports to the US. This is an apt example of the potential advantages that greater dependence on regional markets may confer, including reduced demand volatility and guaranteed market access conditions

(Mold and Chekwoti, 2021). Most textile imports in Lesotho, Mold and Chekwoti (2021) state come from Asia; yarn imports and fabric imports only account for 21.1% and 17.8%, respectively.

In Eswatini, the share of regional fabric imports is much higher – 80.6% of yarn is imported from regional neighbours: 38.9% from Lesotho, 32% from Mauritius, and 9.8% from South Africa; and 35.6% of fabric is of regional imports, mostly from South Africa. Localisation is limited in both Lesotho and Eswatini. Foreign firms in Eswatini are more integrated into a regional production network geared towards South African retailers, given their higher capabilities and more flexible production setup. In Lesotho, South African manufacturers have focused on workwear and corporate wear, while most of the firms exporting to the US market have a production model that relies totally on AGOA and relatively cheap wages.

Can African countries build on the success of Mauritius/Madagascar RVC?

Mauritius was an early mover. It began attracting investments in the early 1980 from apparel manufacturing firms from Hong Kong, as well as from European countries that were beginning to offshore apparel production, facilitated by colonial networks. These investments began to move into Madagascar in the early 1990s as Mauritius experienced labour shortages and rising wages. Mauritius still had the highest number of textile and apparel firms in 2019 (131 firms), of which 97% were locally owned, and 11 had textile production capacity. Mauritius is the only country with fully developed vertical integration in knit, woven fabric, and yarn production (Whitfield et al 2021).

Mauritian firms export fabric to Madagascan companies and Mauritian firms in Madagascar. Mauritian apparel firms were the second-largest foreign investors in Madagascar. Madagascar's export sector also had a significant share of locally owned firms, which accounted for 42% of the 76 textile and apparel firms operating in the country in 2019. Of the total yarn and fabric imports to Madagascar, 9.1% and 14.6% came from Mauritius. Madagascar has only one local textile mill, producing a range of woven fabric for large orders to US buyers (Whitfield and Staritz, 2020). Mauritian firms export only a limited share of yarn and fabric to South Africa and Eswatini, as shown in Tables 2 and 3 (see Annexure). The tables reflect that this sub-regional African trade in textiles is limited, with only 10.6% of total Sub-Saharan African yarn imports and 9.9% of total fabric imports coming from the region (Whitfield et al., 2021). However, the research undertaken by Whitfield et al (2021), reveals that Mauritian firms have close relationships with South African retailers, supplying them with products produced in factories set up in Mauritius and Madagascar. Whitfield et al (2021) point out that, in 2018, Mauritius supplied the EU market with 42.6% of apparel exports, the US with 21.6%, and South Africa with 19.4% of its apparel exports.

How can Kenya build better backward linkages and local ownership of its apparel export sector?

Whitfield et al (2021) point to a lack of clear industrial policy in Kenya's cotton, textile and apparel sectors. Foreign firms dominate these sectors, with Indian owners and large buyers seeking to take advantage of AGOA. In Kenya, the number of apparel export firms fell from over 30 firms in

2004 to 18 in 2008. However, production had not fallen significantly, as larger firms bought off small firms. By 2019, three to four foreign firms accounted for 80% of apparel exports in Kenya (Whitfield et al, 2021).

Global buyers sourcing from Kenya were concentrated among a few large US buyers, including PVH, VF Corporation, H&M, The Children's Place, JCPenney and Levi's. These buyers set up in Kenya because of AGOA preferences, despite relatively high wages and lower productivity than Asian competitors. Foreign apparel firms had textile production in their respective home countries or sourcing networks in Asia through which they shipped fabric to Kenya. According to Whitfield et al (2021), they did not consider investing in textile mills in Kenya due to the high cost of electricity and uncertainty about political support from the government. There were no stand-alone dyeing and finishing plants; only a few accessory firms existed. The lack of a textile base in Kenya results in longer lead times for firms producing in Kenya than competitor countries. This limits firms operating in Kenya to producing mostly basic products. They are competitive in the US market with basic products due to AGOA preferential market access, but in European markets they cannot compete well with Bangladesh and Cambodia. Whitfield et al (2021) note that with very little localisation, the main benefits of the apparel export industry in Kenya are foreign exchange earnings and employment creation (Whitfield et al, 2021).

There is no significant export-quality textile production in Kenya. Approximately 14 fabric mills were operating in the domestic market or were part of vertically integrated local firms with domestic market orientation. Most of the local apparel and textile firms only produced for the domestic market. Increasingly these local firms produce for the regional market, given duty-free access under the EAC. They were owned by South Asian-Kenyans, with only a few of the smaller firms exporting niche products owned by indigenous Kenyans. Production included acrylic for blankets, polyester and cotton mills with knitting and weaving capabilities, and towel and sock production (Whitfield et al, 2021).

How can the Ethiopian success in apparel exports lead to a textile base for both global and regional value chains in Africa?

The apparel export industry is central to the Ethiopian government's industrialisation ambitions. The Ethiopian government's industrial policies have been much more proactive and targeted (Oqubay, 2015; Cheru et al, 2019). Whitfield et al (2021) point out that Ethiopian apparel exports began to take off in the late 2010s. It persuaded a group of large US and European buyers to source from Ethiopia and also convinced some of its core suppliers to invest in Ethiopia. The authors of the study (Whitfield et al, 2021) concluded that Ethiopia is best placed of all other Sub-Saharan African countries to develop an apparel export sector with a larger degree of localisation and with a textile base. The progress that Ethiopia is briefly outline below.

The government provided subsidised financing through the Development Bank of Ethiopia, fiscal and export-promotion incentives, and it built industrial parks to attract investors. By mid-2016, there were 49 local textile and apparel firms, but only 12 exported some portion of their apparel production – seven of which were part of the Pioneer Group (Whitfield et al 2021). The first apparel industrial park in Ethiopia was built in Hawassa and designed in collaboration with PVH,² and some of its core apparel and textile suppliers. PVH decided to focus on producing men's collared shirts in this park and it encouraged a specialised input supplier for men's shirts to locate to the park as well. PVH set up waste management facilities according to Ethiopia's environmental standards – creating an eco-industrial park

The government built three other apparel and textile eco-industrial parks on a smaller scale in Mekele, Kombolcha, and Adama. A few other large US and European buyers such as H&M, Calzedonia, Children's Place and JCPenney, encouraged their apparel and input suppliers to set up factories in the parks. Whitfield et al (2021) argue that the Ethiopian government's high-level investment drive in China did succeed in convincing some large vertically integrated firms to invest in textile production in Ethiopia and to create domestic supply chains.

The government of Ethiopia implemented a second set of industrial policies that focused on local investment in export-quality fabric and encouraged overseas textile producers to set up operations in Ethiopia. Indian investors established a denim textile mill using local cotton to sell fabric to apparel firms in industrial parks. In addition to the production of woven fabric in Hawassa, many foreign investments were coming through in 2019. These included a synthetic fabric mill by a textile supplier for Italian fashion group Calzedonia in Kombolcha industrial park; Chinese firms that were important global suppliers of linen and wool yarn set up vertically integrated factories outside Adama industrial park and proposed several investments around Mekele industrial park. These investments increased the potential for apparel firms to source export-quality fabric within Ethiopia, moving them out of CMT (cut, make and trim) and into higher value-added production (Whitfield et al. 2021). In addition, key global suppliers of accessories and packaging secured spaces in industrial parks to produce labels, hangers, zippers, and packaging.

However, Whitfield et al (2021) observed that these successes did not involve many local firms. In addition, export and domestic markets are segmented in Ethiopia. The domestic market is heavily protected, with a 35% maximum tariff, 10% excise duty, and a 10% surcharge on apparel and textile imports. As a result, local firms produce mainly for the domestic market, where capability requirements are lower, and profit margins are higher. However, they still face competition from Chinese imports and smuggled second-hand clothing, which supply the bulk of the domestic market.

² PVH is a brand marketer and owns brands such as Calvin Klein and Tommy Hilfiger.

What Lessons can be learnt from ASEAN region for the development of RVCs in Africa?

The global study by Whitfield et al (2021) points to the lessons that can be learned from the success of East Asia and the 10 members of ASEAN. A regional production system began to emerge with the implementation of the ASEAN Free Trade Area in 2015, the original six members (Brunei, Indonesia, Malaysia, Singapore, Thailand and the Philippines) implemented the free trade agreement in 2010, while the remaining four members (Cambodia, Laos, Myanmar and Vietnam) fully liberalised their tariffs by 2015. Apparel production began to move to the lesser developed ASEAN-4 by 2010, while the more capital-intensive textile production was managed by the ASEAN-6 (Whitfield et al, 2021). Whitfield et al (2021) observed that Japanese firms moved more functions to Thailand, including investments in textile, with lower-value production situated in Cambodia, Laos, Myanmar and Vietnam. Thailand's textile exports to ASEAN countries increased, as did its apparel exports within ASEAN.

The EU-Vietnam free trade agreement that was concluded in 2015 and entered into force in 2020. This requires fabrics to be produced domestically or in another country, with which both the EU and Vietnam have signed free trade agreements (including South Korea), to qualify for preferential market access (the "fabric-forward" rule). Whitfield et al commented that, as both agreements exclude China through strong RoO (from which the bulk of textiles to Vietnam are imported) and other ASEAN countries, it created strong incentives to "localise" textile production in Vietnam.

So far, the ASEAN free trade agreement has resulted in a regional production network in which activities are dispersed by wage levels. The low-income countries of Myanmar, Laos and Cambodia provide cheap labour, and firms in higher-income countries such as Thailand and Indonesia organise marketing, merchandising, and fabric production (Whitfield et al, 2021). More research will be needed to establish the role of the RoO in developing regional supply chains in the ASEAN region. This type of research will help to understand how RoO were used to incentivise investment in textile production, while keeping out more competitive imports of intermediate products from third countries, such as China. These insights could shed light on the role of RoO in the cotton, textile and apparel sector in the AfCFTA.

5. A DEVELOPMENTAL REGIONALISM APPROACH TO THE AFCFTA – THE CASE OF COTTON, TEXTILES AND APPAREL

Production of African apparel mainly takes place within global value chains (GVCs) that are primarily geared towards supplying branded products to developed country markets. These GVCs are dominated by lead firms that provide intermediate inputs to African countries to be processed under CMT arrangements (UNCTAD, 2019). African producers tend to be engaged at the extremes of the production process, either as suppliers of raw materials or in low-value assembly activities (CMT), where broader developmental benefits are more limited. The decline of the African textile industry in the 1990s and early 2000s has been attributed to structural

factors, such as fierce international competition, and lower economies of scale compared with their main competitors. In addition, African producers had limited bargaining power in the context of captive global value chains (UNCTAD, 2019). In the first decades of the 21st century, high growth rates in Africa and the positive impact of AGOA, has seen the revitalisation of the cotton, textile and apparel sector in a few African countries. However, the African cotton, textile and apparel sector lacks a strong textile manufacturing base and has limited local ownership. Furthermore, most African countries producing for preferential markets in the US (under AGOA) are dependent on this unpredictable market. The current dispensation of AGOA will end in 2025; and the US has already terminated the agreement with Ethiopia for political reasons and is in talks with Kenya on a reciprocal free trade area (Ismail, 2021).

The discussion thus far raised five key questions about how best to address the issue of RoO, in the African cotton, textiles and apparel sector, while at the same time considering the advancement and development of Africa's industrial transformation. These five questions are discussed below.

How can the AfCFTA adopt a developmental regionalism approach to the RoO in the cotton, textile and clothing sector?

African leaders have a well-established and clear policy objective for Africa to industrialise (see the African Union Commission's Agenda 2063, 2015). African policymakers have argued that the purpose of regional integration should not only be about increased trade but also the development of regional value chains that create dynamic externalities. To this end, it is crucial to incorporate lesser developed countries in Africa to participate in manufacturing by producing in specific segments of regional value chains. However, Africa has yet to fully grasp the massive potential of building regional value chains. The AfCFTA is a potential game changer for stimulating Africa's regional value chains. Policymakers need to use this opportunity by developing trade and industrial policy instruments to incentivise investment, such as textile production in African countries plugging the gap between cotton and garment production. The historic opportunity created by the AfCFTA to establish one African market of 1.3 billion people can be leveraged to attract investors in textiles and apparel to set up production bases in Africa and build regional value chains. Moreover, the relatively high levels of protection in cotton textiles and apparel between the different RECs indicate that tariff liberalisation under the AfCFTA offers a huge opportunity for the creation of intra-regional trade and increased investment in the sector.

Drawing on international experiences, China was able to leverage its market size in the late 1980s and 1990s – enticing investors with the large Chinese market and then increasing the pressure on investors to build local capacity and transfer technology. Interestingly, a similar strategy was used by the US and NAFTA, when investors were encouraged to locate within the RTA. Whitfield et al (2021) argue that while African economies can enter GVCs in low-value segments through foreign supplier firms, economic transformation requires localisation of the supply chain. This will require growing the production of inputs locally and the emergence of capable local supplier firms. In addition, these local producers will provide greater linkages of the apparel export sector

with the domestic economy (Whitfield et al, 2021). Thus, creating backward linkages into the local economy is the key to building dynamic and sustainable industrialisation.

How can the AfCFTA prevent transshipment?

One of the consequences of tariff liberalisation within a regional arrangement is the increased flow of goods from more competitive and lower-cost producers, partly due to lower wage levels. Countries with sensitive sectors that are not competitive with a large labour force that could be lost due to increased liberalisation will face domestic political pressure. Also of concern is if the more competitive producers are not on the continent but are in third countries and are using one of the countries within the regional arrangement to transship their goods with a token addition of value. Existing manufacturers would be directly impacted by the potential loss of jobs because of transshipment. These existing jobs on the African continent could thus be transported to third countries. Kaplinsky and Morris (2020) have argued that African manufacturing faces severe challenges in growing their textiles and apparel manufacturing activities due to the dominance of China and Southeast Asian countries in global markets. They state that Africa is negatively impacted in two ways: indirectly, as African countries exports in third markets are blocked; and directly by cheaper Asian imports competing with African manufacturers (Kaplinsky and Morris, 2020).

Thus, liberal RoO can lead to the transshipment of goods from third countries, and the free trade agreement can be used by overseas parties to flood the African market with foreign manufactured goods. This can lead to the decimation of local manufacturing, turning the African continent into a market for externally produced goods. It is not the intention of the AfCFTA to turn the entire African continent into a market for foreign manufactures – crowding out local production and leading and hindering the region’s industrialisation. A range of instruments are required to prevent this potential destructive effect of free trade. African policymakers will need to ensure that the RoO does not undermine existing local textile production and turn the AfCFTA into a market for third country suppliers, creating jobs in the East and the West instead of Africa.

How can the AfCFTA use the regional market to leverage investments in textiles and apparel?

Most of Africa's economies are LDCs that are reliant on a few commodities for production, jobs, and export revenue. In the post-independence period, African commodity producers remained heavily dependent on trade with their former colonisers. However, in recent years, emerging markets (especially in Asia and South America) have become major destinations for the exports of African commodities. Interestingly, countries that have begun to manufacture or add value to their commodities have found markets in Africa. Thus, the bulk of intra-regional trade is made up of intermediate and manufactured products. Africa’s LDCs are still mostly primary commodity producers and have yet to achieve significant industrialisation and benefit from dynamic and higher-value-added trade. However, with the launch of the AfCFTA, many African countries become significant players in the development of regional value chains. For example, cotton from West Africa could be processed into textiles within the continent, producing intermediate fabric

for a growing garment industry in several other African countries such as Madagascar, Kenya and Ethiopia. This will enable many more LDCs to participate meaningfully in higher-value-added intra-regional trade flows.

Regional supply chains in Africa can be facilitated by creating regional economic hubs, spurred by sub-regional and regional investment, and production. Both the OEMs in the auto sector and textiles investors in the cotton, textile and apparel value chain provide good examples of the opportunity for Africa to industrialise by building regional value chains. The resulting regional value chains create backward and forward linkages, that spill over local borders. Kaplinsky and Morris (2020) argued that regional integration is often integrally intertwined with RVC expansion, by providing links to global trade through GVCs (Kaplinsky and Morris, 2020). The authors point to the positive role of regional value chains for smaller economies such as Lesotho, Eswatini and Madagascar that came with expanded their exports of apparel into the South African market (Kaplinsky and Morris, 2020)

Whitfield et al (2021) stress that apparel exports alone cannot drive industrialisation processes. They argue that transformative industrialisation requires localisation of the supply chain and the building of technological capabilities. In addition, the authors argue that while apparel production is important to build production capabilities in Africa, it is textile production that is the stronger source of innovation and linkages to other industries (Whitfield et al, 2021). However, the authors argue that the apparel sector in Africa must be considerably large for foreign firms to consider investing in textile mills. In Ethiopia, there has been some foreign investment in textile mills in anticipation of high demand from firms that have established operations in the country's new apparel industrial parks.

What policy measures and mechanisms are required to ensure that benefits of AfCFTA are spread to poorer and smaller economies?

The UNCTAD report (2019), *Economic development in Africa report 2019: Made in Africa – rules of origin for enhanced intra-African trade*, attempts to grapple with the question of how the AfCFTA RoO can a) increase intra-regional trade; and b) increase value-addition and the building of regional value chains.³ To address the challenge of low value-added capacity of existing producers in LDCs and less developed African producers of garments, the report proposes a two phased approach. In the first phase, the report argues liberal rules should be adopted allowing for imports of intermediate goods with a low threshold for regional value addition. In the second phase, more strict rules of origin should be phased in to incentivise textile investments and industrialisation.

However, this phased approach, especially the first phase, could result in a flood of imported textiles and services that mostly add buttons and zips to garments to take advantage of the huge African free trade market. This would destroy existing local textile and higher-cost garment producers that cannot compete with mostly Asian manufacturers. If this occurs, it will almost be

³ See Chapter 3 of the UNCTAD Report (2019)

impossible for African countries to climb up the global value chain, forcing them to remain mere producers of low value added garments for global markets.

AfCFTA policymakers need to address the fact that most African countries do not have the capacity to meet more stringent RoO and thus benefit from the AfCFTA preferential tariffs. In this context, the more relevant policy questions are:

- 1) How can the AfCFTA assist its members in meeting stricter RoO that support transformative industrialisation?
- 2) How can countries increase their value-added production through regional sourcing of inputs?
- 3) What measures can African countries take to displace imported textiles with domestic production?
- 4) How can the African market incentivise foreign investors in textile and apparel production from eastern and western countries to establish operations in Africa to take advantage of the massive free trade market that the AfCFTA will create?.

There may be several ways to meet both these policy objectives: a) building regional value chains; and b) increasing intra-regional trade, especially from less developed African countries. Thus policy measures should be considered which increase the capacity of less developed countries to industrialise and participate meaningfully in regional value chains and manufactured exports. However, careful consideration needs to be given to not undermining the existing producers of manufactured goods by lowering the threshold for imported inputs from third countries. How can those countries that have a low level of development be allowed to import foreign inputs for domestic processing and exports into the African continent without simply transshipping manufactures from more competitive regions? How can the AfCFTA extend its benefits in the short and medium term to its lesser development members as well?

A range of measures could be considered, including:

1. Quotas could be imposed on exports from LDCs that require single transformation RoO. The quotas could be applied for a limited period until these countries transition to double stage transformation.
2. Cumulation of rules of origin (see discussion above) could be used as an instrument to assist countries that are at a lower level of industrialisation to invest in the production of components such as zips and buttons, and thus enable them to export intra-regionally.
3. Implementation of the AfCFTA must be complemented with a range of supply-side measures by countries at the national and regional levels. The AfCFTA could facilitate cooperation amongst regional institutions – for example, Africa’s development finance institutions (DFIs) – to provide supply-side support and development finance to firms at a national and regional level. In this regard, the discussion in the next sub-section makes some recommendations.

What supply-side measures can complement the use of RoO to support transformative industrialisation and RVCs in Africa?

Several writers argue that RoO on its own is not an adequate policy tool for building RVCs and promoting transformative industrialisation in Africa. For example, the growth of the cotton, textiles and apparel sector into a dynamic competitive regional value chain stimulated by the implementation of the AfCFTA will need to be complemented by a range of supply-side measures to build the productive capacity of African countries (Whitfield et al, 2021; Kaplinsky and Morris, 2020; Altenburg et al, 2020). These include:

First: Whitfield et al (2021) argue that government industrial policy must support the building of local firms that are crucial for cumulative capability building and developing a local supply chain, and an extensive and diversified textile base.

Second: Altenburg et al (2020) call for the creation of industrial parks. They also argue that attractive investment conditions should be created through fiscal, financial and infrastructural incentives. They propose that African countries undertake targeted joint campaigns with global buyers to attract their first-tier suppliers.

Third: Kaplinsky and Morris (2020) stress that the need for regional initiatives to upgrade infrastructure and create common regulatory frameworks across the region are fundamental. Establishing knowledge-intensive agencies (such as laboratories, standards testing facilities) with regional reach and scope assists firms to enter and sustain their place in RVCs. They also argue that a regional strategy for a textile base is crucial to increase the overall variety of fabric available at any given time, including capacities in dyeing and finishing. Neighbouring countries could develop specialised textile sectors around specific product categories and then source from each other in a free trade area.

Fourth: Mold and Chikweti (2021) point to the need for Africa to take control and revitalise its consumer market by addressing the issue of second-hand garments that flood domestic markets and undermine local manufacturing. Africa accounts for nearly a third of global imports of second-hand clothing, which was estimated at US\$5 billion in 2019 (UNCTADStat, 2021). About 80% of Africa's population wear second-hand clothes, mainly imported from the US, Europe, India and Pakistan.

Fifth: Jensen and Whitfield (2022) argue that African countries can leapfrog development to take advantage of the opportunities presented by the next "techno-economic paradigm" change within global capitalism. They argue that this paradigm shift is one towards renewable energy and the circular economy. Jensen and Whitfield argue that some of the largest retailers in the world, such as H&M and Inditex, have corporate strategies that promise to source 100% recycled or other sustainably sourced materials by 2030. They consider this emerging trend as a major opportunity for African countries to prepare for, if they want to compete in the new global economy.

6. CONCLUSION

This paper is intended to stimulate a more balanced debate on the appropriate Rules of Origin for the AfCFTA in the cotton, textile and apparel sector. The paper has critiqued the mainstream literature on RTAs and RoO, pointing to inconsistencies that policymakers should be aware of. Some writers may support regional integration in Africa but adopt an approach such as “open regionalism” that better suit the interests of third-country suppliers into Africa rather than African countries that seek to industrialise.

It is also critical of academic writers that conflate the debate on the RoO in the AfCFTA with the debate about RoO and unilateral preferences offered by the EU and US. The paper argues that these academic critics have incorrectly painted all restrictive rules of origin in RTAs as “protectionist”. In addition, the paper argues that there are inconsistencies in the positions of those writers that ignore the literature on the use of RoO in Northern regional arrangements such as NAFTA/USMCA. In this case the evidence indicates that, notwithstanding the criticisms that can be levelled at the extreme protectionism of the US, the NAFTA/USMCA RoO has been successful in creating regional supply chains in the automotive sector.

This paper thus argues for a “developmental regionalism” approach to the AfCFTA RoO that supports a Made in Africa approach that will support and facilitate:

- a) Diversification of Africa's economies towards higher-value production and the creation of RVCs;
- b) Prevention of transshipment of cheaper inputs and intermediate products from third countries;
- c) The leveraging of the large regional market created by the AfCFTA to attract investment in textiles and apparel production in Africa;
- d) Pay special attention to the specific concerns of LDCs that have poor manufacturing capacity; and
- e) The use of specific supply-side measures at a national and regional level to build the productive capacity of African countries.

The analysis presented in this discussion paper calls for a balanced approach to the RoO in the negotiations on cotton, textiles and apparel. Lax rules can allow countries from outside the African continent to take advantage of the free trade area to the disadvantage of economies within the AfCFTA, thus undermining Africa's economic and industrial development. On the other hand, a Made in Africa' approach will require African countries to place the continent on a path that creates a virtuous circle of increased investment in regional value chains and increased intra-regional trade of higher value-added manufactured products.

GLOSSARY

Ad valorem percentage: Regardless of a change in the classification of a good, the good is considered substantially transformed when the value added of that good increases up to a specified level, expressed in terms of an ad valorem percentage. This value added criterion can be expressed in two ways, namely, as a maximum allowance for non-originating materials or as a minimum requirement of domestic content.

Cumulation: Under cumulation rules, contracting parties to a preferential trade agreement or beneficiary countries under the Generalized System of Preferences schemes may source non-originating raw materials or components from specified countries and count them as originating. There are three types of cumulation: (a) bilateral cumulation allows two partner countries to treat materials originating in one of the partner countries as materials of the other partner country; (b) diagonal cumulation permits countries within a regional grouping to treat materials originating in a specific third country as their own materials; and (c) full cumulation, which concerns processing operations carried out by any of the participating preferential trade agreement countries that may be considered for cumulation purposes.

Change in tariff classification: Origin can be conferred after a change in tariff heading. This implies that the final good should fall under a different tariff heading than the imported goods used in the production of the product, according to the Harmonized System of nomenclature for goods.

Developmental regionalism: An approach to regional integration that is based on a heterodox economic view of the world and an idealism that incorporates values or solidarity as an essential ingredient to achieve this.

Triple, double and single transformation requirements: In rules of origin, the extent to which non-originating inputs can be used for the production of preference-eligible apparel products is typically referred to as double transformation or single transformation requirements. For origin determination, double transformation requires that two stages of production take place in a free trade area region (yarn → fabric → apparel). Under single transformation requirements, only one production step needs to take place within a region for the apparel product to acquire originating status (i.e. fabric → apparel). A triple transformation requires that three stages of production take place in a free trade area region (fibre → yarn → fabric → apparel). Made in Africa – Rules of Origin for Enhanced Intra-African Trade

Free trade area: A free trade area is a grouping of countries within which tariffs and non-tariff trade barriers between the members are generally abolished but with no common trade policy toward non-members (i.e. the North American Free Trade Agreement and the European Free Trade Association).

Generalized system of preferences: The Generalized System of Preferences is a preferential tariff system, in favour of developing countries, which provides for a formal scheme of exemption from the more general rules of the World Trade Organization.

Harmonized commodity description and coding system: The Harmonized Commodity Description and Coding System, first introduced in 1988, is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes. At the international level, the Harmonized System for classifying goods is a six-digit code system. Descriptions of articles or products appear as headings and subheadings, arranged in chapters that are grouped into sections. Also known as the Harmonized System.

Most-favoured nation: A most-favoured nation clause requires a country to provide any concessions, privileges or immunities granted in a trade agreement to one nation to all other World Trade Organization member countries. Although the term name implies favouritism towards another nation, it denotes the equal treatment of all countries.

Non-tariff barrier: A non-tariff barrier increases the cost of trade. It generally expresses a negative impact of an unnecessary and, probably, protectionist regulation or customs or administrative procedure or processes. These include lack of infrastructure or lack of transparency in trade regulation, arbitrary application of trade regulations, non-recognition of certificates, etc. It may be subjective, and there is no exhaustive list.

Non-tariff measure: A non-tariff measure refers to regulations officially issued by a country that may affect trade, even in cases where the main objective is not to regulate trade, but rather, to address safety or quality, for example. This term should not be used interchangeably with non-tariff barrier.

Open regionalism: A third option between regional integration and multilateralism in which members of the regional integration project would strive to simultaneously open their markets to each other and also to the rest of the world.

Preferential trade area: A preferential trade area is a trading bloc that gives preferential access to certain products from the participating countries. This is done by reducing tariffs but not by abolishing them completely. A preferential trade area can be established through a trade pact.

Regional integration: Regional integration is a process in which neighbouring States enter into an agreement to upgrade cooperation through common rules. Intraregional trade refers to trade which focuses on economic exchange, primarily between countries of the same region or economic zone.

Rules of origin: Rules of origin cover laws, regulations and administrative determinations of general application applied by the Governments of importing countries to determine the country of origin of goods. Rules of origin are important in implementing trade policy instruments, such as anti-dumping and countervailing duties, origin marking and safeguard measures.

Tolerance rule: The tolerance rule permits a specific share (often between 10% and 15% of the value or volume of the final product to be non-originating without the final product losing its originating status. In some agreements, the components to which the rule applies are specifically identified. Alternatively, there may be a list of components that may not be included in the

allowance or a list of products (e.g. chapters, under the Harmonized System) to which the tolerance rule does not apply. Also known as the de minimis rule.

Trade creation: Trade creation is the increased trade that occurs between member countries of trading blocs following the formation or expansion of the trading bloc. This comes about as the removal of trade barriers allows greater specialization according to comparative advantage. This means that prices can fall, and trade can thus expand.

Trade deflection: Trade deflection is the movement of goods or components of goods from outside a trading arrangement to a country within such an arrangement for the seller to benefit from trading preferences.

Transshipment: The process whereby one country imports goods/containers from another and then moves these goods/containers to a third country without adding any value to the goods.

Wholly obtained criterion: The wholly obtained or wholly produced criterion, relates to goods that are entirely the product of one country and do not have inputs from non-contracting parties in the production process. It also refers to natural products and goods made from natural products that are entirely obtained in one country. Goods wholly obtained in one country are considered as originating in that country. The concept is still relevant for some agricultural and mining products.

Source: UNCTAD, 2019, and Author

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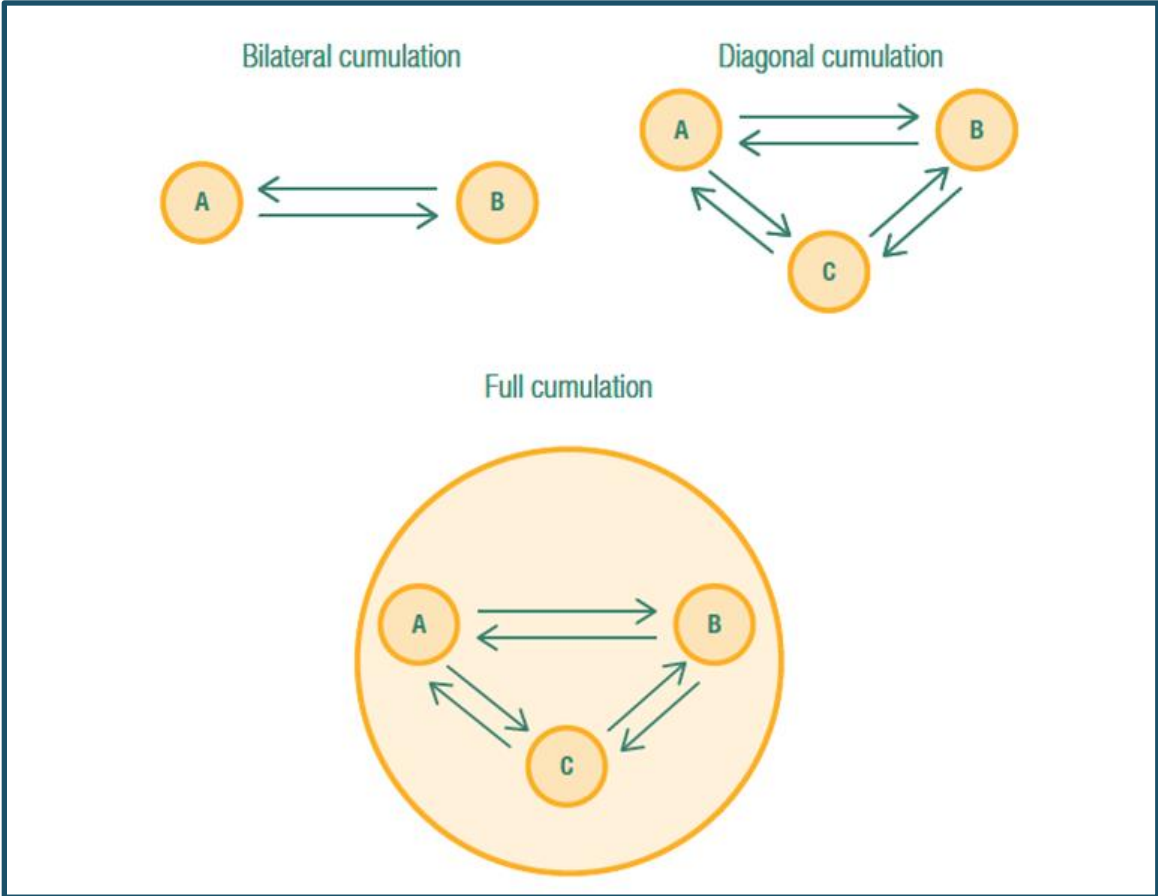
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ANNEXURE

Figure 4: Bilateral, diagonal and full cumulation



Source: UNCTAD, 2019

Table 1: Key features of the rules of origin in selected RECs and free trade areas in Africa

	COMESA	EAC	ECCAS	ECOWAS	SADC	TFTA	AFCTA
Main origin criteria							
Wholly obtained	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Ad valorem</i> percentage	General: Yes Three <i>ad valorem</i> percentage calculations and change of tariff heading (not an across-the-board criterion; limited to specific headings in Appendix V of COMESA protocol on RoOs)	General: No	General: Yes Uniform percentage across all products (minimum 30% of regional value content; minimum value contingent on calculation criterion used)	General: Yes Uniform percentage across all products (minimum 30% of regional value content, using value added by subtraction)	General: No	General: No	General: No Percentage to be determined by products/sectors
Change of tariff classification	Applicable	Applicable	Not applicable	Not applicable	Applicable	Applicable	Applicable
Regime-wide rules							
Cumulation	Yes	Yes	Yes	No explicit terms in legal text	Yes	Yes	Yes
Tolerance	No	Yes	No	No	Yes	Yes	Yes (to be agreed)
Absorption	Yes	Yes	Yes	No	Yes	Yes	Yes (to be agreed)
Certificate of origin	COMESA certificate of origin	EAC certificate of origin	ECCAS certificate of origin	ECOWAS certificate of origin (agricultural products, livestock products, and handmade articles exempt from this requirement)	SADC certificate of origin	Tripartite Free Trade Agreement certificate of origin	AFCTA certificate of origin
Certifying authorities	Yes; specimen impressions of stamps and specimen signatures of officials required	Yes; specimen impressions of stamps and specimen signatures of officials required	Yes; specimen impressions of stamps required	Yes; signature must be provided with name and function	Yes; specimen impressions of stamps and specimen signatures of officials required	Yes; specimen impressions of stamps and specimen signatures of officials required	Yes; specimen impressions of stamps and specimen signatures of officials required
Notification requirement to certifying authorities	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Exporter declaration (self-certification)	No	No	No	No	No	No	No
Approved exporter	No	Yes	No	No	No	Yes	Yes
Exporter declaration for small consignments	No	Yes; maximum \$500 for person-to-person shipment; or maximum \$1200 as traveller luggage	No	No	No	Yes; maximum \$500 for person-to-person shipment or maximum \$1200 as traveller luggage	Yes; maximum \$500 for person-to-person shipment or maximum \$1200 as traveller luggage
Direct Shipment requirement	Yes	Yes	No clear provisions in legal text	No explicit terms in legal text but definition of consignment is provided	Yes	Yes	Yes
Document evidence of direct shipment requirement	No clear provision in legal text	No clear provision in legal text	No clear provision in legal text	No explicit terms in legal text definition of consignment is provided	Single transport document or document certified by customs authorities of third country	Single transport document or document certified by customs authorities of third country (if unavailable, any substantiating evidence may be accepted)	Single transport document or document certified by customs authorities of third country

Source: UNCTAD 2019 and Tsohou and Davis, 2021

Table 2: Yarn imports of top Sub-Saharan (SSA) apparel exporters

	Yarn		
Country	Import value (USD)	% SSA	Top import partners, SSA
South Africa	239 217 120	10.5%	Lesotho (3.1%) Mauritius (3.0%) Zimbabwe (2.2%)
Mauritius	75 197 654	2.1%	South Africa (2.1%)
Madagascar	46 198 949	9.4%	Mauritius (9.1%)
Kenya	107 383 612	3.9%	South Africa (2.0%) Uganda (0.5%) Tanzania (1.3%)
Lesotho	12 966 905	21.2%	South Africa (21.2%)
Eswatini	44 019 552	80.6%	Lesotho (38.9%) Mauritius (32.0%) South Africa (9.8%)
Ethiopia	96 609 434	0.0%	

Source: Whitfield et al, 2021

Table 3: Fabric imports of top SSA apparel exporters

	Fabric		
Country	Import value (USD)	% SSA	Top import partner, SSA
South Africa	942 615 403	4.9%	Eswatini (1.9%) Mauritius (1.5%) Lesotho (0.7%)
Mauritius	144 669 512	3.3%	South Africa (1.5%) Lesotho (1.0%) Madagascar (0.6%)
Madagascar	277 995 775	15.4%	Mauritius (14.6%) Lesotho (0.4%) South Africa (0.3%)
Kenya	343 732 600	3.3%	Tanzania (1.9%) Ethiopia (0.7%) South Africa (0.6%)
Lesotho	230 241 616	17.9%	South Africa (17.8%)
Eswatini	184 296 139	35.6%	South Africa (35.6%)
Ethiopia	241 530 966	0.4%	Lesotho (0.1%)

Source: Whitfield et al, 2021