Op-Ed | Africa, Fashion’s Next Sourcing Hub?

Africa’s integration into the global apparel industry is a question of when, not if, says Marc Compagnon of Li & Fung.

HONG KONG, China — In the 1980s, several African countries were hubs for textile production. However, they suffered a major setback in 2005, when the Multi Fibre Arrangement — which limited the amount of textiles and clothing that developing countries could export to North America and Europe — expired, making it more competitive to produce in China.

But with China coming into its own and moving up the value chain, textile producers and apparel brands are looking towards Africa again — in particular, transitioning and pre-transition economies such as Kenya and Ethiopia — as a potential destination from which to build their business and market share.

There is a lot to be optimistic about. Africa is the world’s fastest-growing region. Foreign direct investment grew nearly 7 percent to $56 billion in 2013, according to a 2014 report by the United Nations. The continent’s collective GDP is set to reach $2.6 trillion by 2020, with over 128 million households earning $5,000 or more, according to projections by McKinsey & Company. What’s more, over half of Africa’s population is under 20 years old.

Sub-Saharan Africa (SSA) has duty-free access to the US apparel market under the African Growth and Opportunity Act (AGOA), implemented in 2000. North African countries such as Morocco and Tunisia are already sourcing hubs for European markets.

Even more encouraging is that a new generation of leaders, in countries such as Kenya and Ethiopia, are committed to growing their economies with forward-thinking strategies focused on the textile and clothing industries. In recent years, a reduction of red tape has made it quicker to set up businesses and a solid proportion of national spending has been directed into telecommunications, educational and technical institutions, vocational training, infrastructure and renewable energy. With the support of policy makers, industry bodies are actively engaging overseas buyers and potential investors to better understand their needs and markets.

Green shoots are appearing in SSA. Because of low wages and power rates, Ethiopia has attracted interest from several international brands and buyers. Manufacturers from India, China and Turkey are building up textile production capacity in the continent to leverage the availability of raw materials such as leather and cotton. In Kenya, where the minimum wage is higher than in Bangladesh, local manufacturers have started small-scale production for a few key global brands and retailers who are also expanding their retail footprint to cater to the continent’s rising middle class.

Nonetheless, value does not depend on cost alone, but also on Africa’s ability to adapt to industry realities. Following the Rana Plaza collapse in 2013, supply chains have moved towards greater transparency, making worker safety, wellbeing and wages primary concerns. Technology is converging with fashion in wearables and smart fabrics; e-commerce has disrupted traditional consumption patterns in the US and EU; and major retailers, pressured by competition from fast fashion companies, rely heavily on discounting and speed-to-market to drive sales.

To sell value beyond price, supply chains need to be more agile, sustainable and connected across different regions. Producers have to innovate processes, deliver faster and share the responsibility of inventory management with retailers. This is a challenge for AGOA nations.

While the region has many seaports, it lacks an efficient transportation backbone: trucking from Ethiopia to the Port of Djibouti takes, on average, 5 to 7 days. Many local companies export cotton to be spun and woven abroad. Investment in mills is underway, but it will take at least five years before they can commit to orders. Until then, Africa will continue to depend on fabric imports from Asia.

Productivity in SSA has yet to reach the same levels as Asia. Indeed, Africa’s investment in new technologies lags behind that of other developing economies. Investment is needed in energy, R&D, technological skills, industrial engineering and lean manufacturing.

Supply chain stakeholders must also recognise that employees need more than just monetary incentives, and develop the skillsets and talent for factory work, middle and senior management.

AGOA nations should build a regional network through which raw material producers can connect with fabric manufacturers and garment makers. In China, policies helping firms in competing provinces to plug into the value chain has been a key driver behind the country’s economic development.

Africa’s challenges also present opportunities. If governments continue to invest in hard and soft infrastructure and collaborate with one another to become competitive on the global market, then SSA’s integration into the global apparel industry will come sooner, rather than later.

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