Qualitative Dimensions to Competitiveness Assessments: Lessons from Textile and Garment Industry Assessments in South Africa, Vietnam, and Morocco

Paper presented by

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Abstract

Competitiveness analyses that focus solely on cost comparisons may lead to misguided recommendations that focus solely on cost control. Experiences taken from a variety of field assignments (South Africa, Morocco, Vietnam) suggest that equal attention must also be paid to qualitative factors that shape individual nodes within a cluster or the linkages among various cluster participants in order to gain deeper insights into competitiveness and provide richer insights to firm managers and cluster leaders. Examples of these qualitative factors include understanding the size, degree of capitalization, extent of outreach, and product mix of firms; position of firms within the cluster; access to/use of various capital and inputs; access to financing and foreign exchange; degree of infrastructure development; export and marketing strategies; strategies for workforce development; innovations with respect to product development, manufacturing, and marketing processes; and cluster-level behavior with respect to policy makers.

Key words: Competitiveness, textiles, commodity chain, workforce development.

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Introduction

Competitiveness analyses that focus solely on cost comparisons may lead to misguided recommendations that focus solely on cost control. Experiences taken from a variety of field assignments (South Africa, Morocco, Vietnam) suggest that equal attention must also be paid to qualitative factors that shape individual nodes within a cluster or the linkages among various cluster participants.

Economists emphasize cost-based assessments in their analyses of comparative advantages in production and trade. Yet observation of the international textile and clothing industry, spread out over many nations with infinite combinations of labor, skills, capital, resource, and geographic endowments, suggests that firms diversify their risks by spreading production over multiple platforms for a variety of reasons, higher wages notwithstanding.

Paying attention to cost as the sole determinant of competitiveness may lead to the conclusion that wages are the most important variable in shaping competitiveness, which may in turn promote strategies to minimize labor input. Yet experience shows that as countries open their economies to international markets, the wage premium paid for skills increases, i.e. firms need to pay attention to encouraging labor and skills development, not squeezing it.[1] Qualitative factors such as product design, niche marketing, cluster collaboration, information technology, labor skills development, management skills development, international trade negotiations, capital investments, strategic input sourcing, research and development, customer service, etc. can play important roles in shaping a firm's position in the international textile and clothing commodity chain suggests other strategies that firms can implement to accrue their competitive advantage. Economists have a lot to learn from business and industrial organization experts if they are to contribute meaningfully in applied, real-world settings.

[1] The effect of trade liberalization on increased wage inequality has been observed in Brazil (Pavcnik et al. 2002), Indonesia (Agrawal 1995), Mexico (Revenga 1995, López-Acevedo 2003).

Intellectual Underpinnings of the Qualitative Approach to Competitiveness

This paper on the qualitative dimensions of competitiveness research owes its intellectual roots to a number of different schools of thought.

Peasant Economics and Farming Systems Research

The first is the French Marxist approach to the study of village-level economies in West Africa, led by Meillassoux and Coquery-Vidrovitch. In the 1970s these scholars held that in order to understand African peasant farmers, one had to understand the social context in which village life was organized. Their writing was mirrored in the "farming systems research" (FSR) school which became popular in the late 1970s and early 1980s. FSR held that traditional farmers in developing countries had a variety of motivations for undertaking production, storage, marketing, and consumption decisions, as a function of household size/content, access to resources, and so forth. Anthropological as well as economic field survey methods were used to understand the incentives faced by farmers and the production and marketing decisions they made.

Filière and Comparative Advantage Analysis

The second major influence is the French "filière" approach to understanding what some anglophone agricultural economists have called "sectors" or "subsectors". This school of thought took the position that in order to understand cotton production, for example, it is necessary to understand upstream and downstream processes that contribute to the on-farm production of fiber, including input and factor markets, and off-farm collection and processing of it into spun thread, knit or woven fabric, and garments. Agricultural comparative advantage analyses innovated by Stryker and Belassa in the 1970s in West Africa spawned a generation of development economists trained by Stryker at The Fletcher School of Law and Diplomacy, Tufts University in this integrated *filière* approach. One of the first applications of this approach to understanding agricultural comparative advantage was *Rice in West Africa* (Stryker, Pearson, Humphreys 1981) wherein the policy environment was viewed as shaping the incentives faced by farmers and equally important to understand why farmers do what they do.

The same holistic approach to the analysis of food and cash agricultural crops provided the analytic underpinnings to guide many a World Bank agricultural sector adjustment operation, from Morocco to Madagascar, Romania to Vietnam. Distortions in factor, input, and final good

prices often provided logical explanations for the seeming irrational behaviors in which market agents often engaged. “Getting the prices right” was understood as a necessary pre-condition for farms and firms to allocate resources in efficiency-maximizing ways, rather than wasting time trying to extract rents from distorted market situations (Timmer 1986; Tsakok 1990).

The evaluation of “competitiveness” in the context of a comparative advantage analysis is largely a cost concept. Financial costs of production per unit output are enumerated for each stage of production, collection, processing, and distribution. These are converted into economic values by accounting for the effect of subsidies and/or taxes at each stage. Productivity of the system is measured at the point where total costs are divided by total output to estimate unit costs. Costs are compared with the economic value of the output, usually taken to be the “world” or reference price of the commodity.

Profitability of an activity is measured as output price minus the value of tradable inputs, intermediate inputs (such as transportation and irrigation), and non-tradable factors of production (land, labor, capital). When expressed in economic prices, economic profitability can be re-expressed in ratio form as a “domestic resource cost” coefficient (DRC). The DRC measures the economic value of all domestic resources (value of land, labor, and capital) relative to the economic value added contributed by the activity. A DRC greater than unity indicated that a country (or region or production system) consumed more in domestic resources than it generated in terms of international value-added, i.e. represented an inefficient use of those resources, while a DRC less than unity indicated just the opposite.

The estimation of DRCs for a sample of production systems allows the comparison of economic profitability across systems. Such comparisons may be defined in multiple dimensions, depending on the policy issues of greatest interest to stakeholders, e.g.

- *across crops:* e.g. on the same land type, does Morocco have greater comparative advantage in producing wheat or sugar?
- *across levels of technical productivity:* e.g., does Madagascar have greater comparative advantage producing rice under traditional, manual techniques, using animal traction and modern chemical inputs, or under full mechanization?
- *across stages of production and processing:* e.g., does Tunisia have greater advantage producing olive oil under small-scale, traditional pressing or in industrial oil mills?

- *across regions:* e.g. do Senegalese rice farmers produce greater comparative advantage growing rice in the Senegal River Valley or in the Casamance?
- *across final consumption markets:* e.g. are West African livestock producers competitive when selling live animals into the meat market in Mali, northern Côte d'Ivoire, or Abidjan? At what geographic point does imported meat compete successfully with domestically produced meat?
- *at official or equilibrium exchange rates:* e.g. was Malian rice competitive at the pre-1994 rate of exchange of the CFA franc with the dollar, and if not, what degree of devaluation would be required to restore competitiveness?

This approach had great practicability, allowing for integration of technical, regional development, and policy analysis for a wide variety of issues. Its utility was furthered by the innovation of commercial analysis packages, such as the Policy Analysis Matrix (PAM), widely used in the early 1990s (Monke and Pearson 1989).

However, as attention turned to comparative advantage analysis of non-agricultural products, it became clear that this popular approach was less useful. With more heterogeneous industrial goods and services, and even with processed agricultural and food products, the analysis of the competitiveness of production was far more complex. Products are less comparable across suppliers because of their greater differentiation, economic reference prices do not always exist or are difficult to identify, and distribution into foreign consumer markets is controlled by more complex commodity chains.

Private Sector Competitiveness

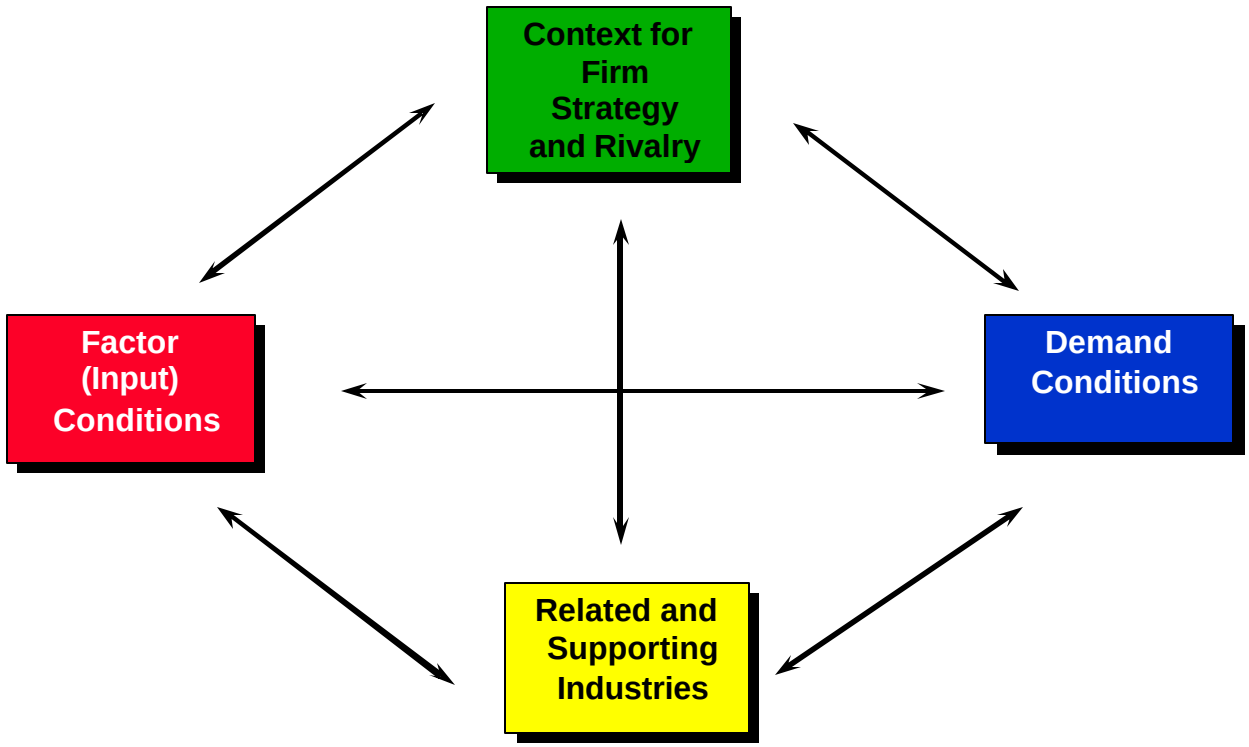
By the mid-1990s development analysts focused beyond stabilization and structural adjustment to understanding private sectors. De Soto (1989) focused attention on understanding the motivations of informal business sectors, while Porter's (1990) work on competitiveness influenced thinking on private business in formal sectors, with obvious parallels to thinking about informal business as well. "Ploughing the sea" became a metaphor for applying business strategy focus to developing country enterprises (Fairbanks and Lindsay 1997).

Porter's work dramatically broadened the field of inquiry for understanding competitiveness. While *comparative advantage* (or "cost competitiveness") is what households or firms enjoy when they use domestic resources, or factors of production, in an efficient way to create positive

economic value-added, *competitiveness* is what households or firms enjoy when they understand how to combine the process of efficient resource transformation with strategic thinking on product design, firm organisation, firm linkages to suppliers and customers, inventory management, marketing, policy frameworks, etc. in order to grow market share. Such an approach allows consideration not only of cost indicators, but of strategic alliances and networks of human capital that link "clusters" of households and firms into an even more holistically conceived system.

Porter's overlay of private sector, firm-orientation gave his theoretical model a more multi-dimensional perspective. Companies were seen as related not just because they were located on neighboring points on the same production-chain vertical line, but because in one way or another they collaborated on related points of a competitiveness diamond. Seemingly unrelated firms from agribusiness, manufacturing, transport, retail, advertising, and information sectors could all be conceptually united on Porter's cluster competitiveness diamond (Figure 1).

Figure 1: Porter Competitiveness Diamond



Porter's diamond depicts the competitiveness conditions required for clusters (core firms and supporting industries) to be successful. With regard to the *context for firm strategy and rivalry,* there must be a local context and rules that encourage research and development investment, innovation, and sustained upgrading (e.g., intellectual property protection). Open and vigorous competition among locally-based rivals is essential. High quality, specialized *factors and inputs* – e.g., human resources, capital resources, physical infrastructure, administrative infrastructure, information infrastructure, scientific and technological infrastructure, natural resources – should be available to firms. Optimal *demand conditions* include a core of sophisticated and demanding local customers, local customer needs that anticipate those elsewhere, and unusual local demand in specialized segments that can be served nationally and globally. These conditions are reinforced through the presence of capable, locally-based *related and supporting industries,* which collaborate with key firms as part of clusters, instead of operating independently as isolated industries.

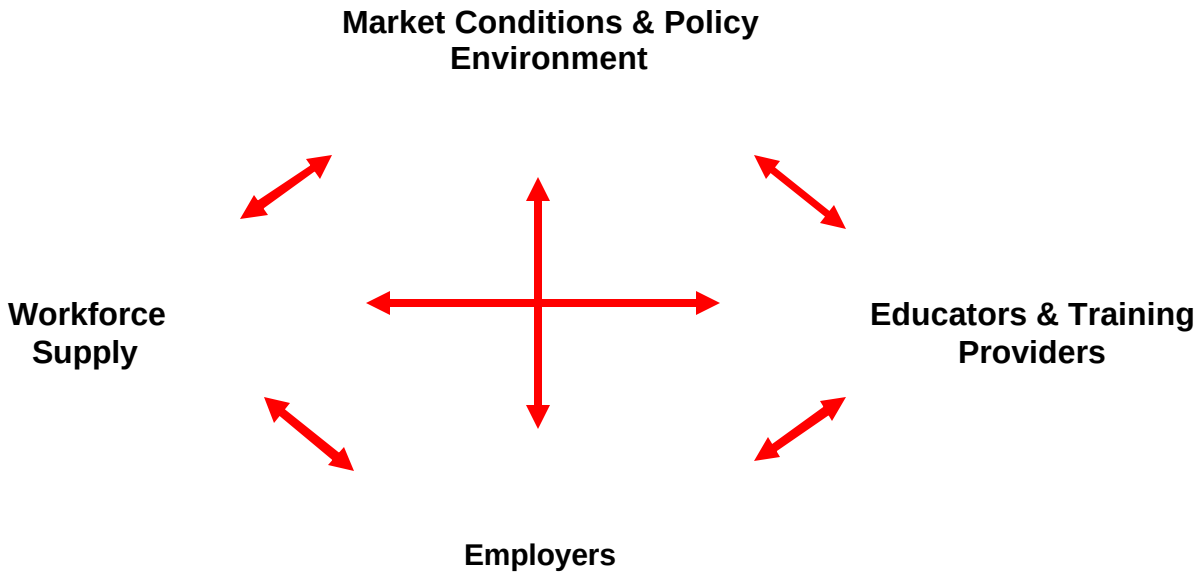
Broader factors are also important in the competitiveness equation. For example, in deciding both where to place their foreign direct investments as well as with whom to enter into commercial relationships American electronics and textile firms evaluate broader factors to narrow down the number of eligible country platforms, before pursuing individual firms with which they might do business (McMillan, Pandolfi, and Salinger 1999). Textile firms report that in addition to costs and taxes, other factors that determine their selection of developing country partners are local labor and management skills, production and marketing infrastructure, the regulatory and business environment, U.S. trade relations, and the reputation of the country and local partner firms for labor conditions. In addition, the electronics firms note that cheap labor is no longer sufficient to attract foreign direct investment (FDI). The opportunities for developing countries are not the traditional, labor-intensive manufacturing for export opportunities that once characterized the electronics industry, but rather a host of new engineering and manufacturing opportunities, as manufacturing becomes increasingly distinct from innovation and market intelligence activities.

Workforce Development

Experience in successful economies suggests that effective workforce development (WFD) systems are also needed to support competitive cluster growth (Aring 2002; Aring, Belghazi, Bouzri, Salinger 2003).

Aring's workforce development model adapts Porter's competitiveness diamond to include education and training institutions in the mix:

Figure 2: Aring Workforce Development Diamond



Analysis of best practices from WFD systems around the world indicates that they include the following elements to meet changing employer and worker needs:

- A formal education system that produces graduates with knowledge and skills relevant to market demand;
- A system for assessing and certifying knowledge and skills that is recognized by employers and facilitates access from the informal to the formal learning system;
- Diverse opportunities for lifelong learning by youth and adults outside the formal education system;
- Financing strategies and incentives that support sustained public and private sector investment in skill development;
- Labor market policies that promote job creation and economic growth;

- Strategic linkages among employers, educators, government, and individual citizens in the labor market to promote system responsiveness to economic needs and outcome-based accountability;
- Labor market information, job placement, employment retention and unemployment compensation services that meet the needs of workers and employers- the system's dual customers.

Only when a thriving workforce development system is in place can clusters hope to maximize their competitiveness.

Application to Textile and Clothing Industries

Textile and clothing industries are traditionally thought of by economists as "footloose industries" that readily move around the world in search of lowest cost production platforms. Their arrival in-country is frequently heralded for the job creation they will inspire, especially for low-skilled workers.

Low costs are everywhere. Today's textile and clothing industries, in the face of scheduled elimination of all quantitative textiles and clothing trade restrictions (quotas) by 2005 as the WTO Agreement on Textiles and Clothing phases out the final remnants of the Multifibre Arrangement, can choose partners from Bangladesh to Madagascar to Bulgaria to Mexico. Yet the choice of where to locate some or all of one's industrial production capacity is no simple calculus. While some international commercial partners do indeed quickly move in and out of local platforms when incentives programs change abruptly,[2] observation suggests that greater diversity of production and trade exists across countries than mere cost minimization strategy would deem optimal. Although now somewhat dated, the table below presents hourly textile sector wages in a broad diversity of textile and clothing sector production firms.

[2] For example, a substantial number of foreign producers were drawn to work in South Africa through "decentralization incentives" offered by the government to encourage domestic and foreign firms to relocate to outlying areas in the country. These were usually rural or peri-urban areas, populated primarily by very poor, black workers with very few job opportunities. When these incentives were later pulled, many of these same firms relocated operations to lower cost centers in Lesotho, Swaziland, and Mozambique.

Hourly Textile Sector Wages

(Includes social and fringe benefits, US dollars, 1998)

Country	Region	1998	Country	Region	1998
Switzerland	Other Europe	24.08	Turkey	Other Europe	2.48
Germany	EU	21.48	Mexico	NAFTA	2.23
Japan	Far East	20.70	Czech Republic	Other Europe	2.05
Italy	EU	15.81	South Africa	Middle East & Africa	2.05
France	EU	14.16	Morocco	Middle East & Africa	1.89
Canada	NAFTA	13.93	Tunisia	Middle East & Africa	1.76
UK	EU	13.58	Romania	Other Europe	1.12
USA	NAFTA	12.97	Philippines	Far East	1.12
Australia	Far East	11.39	Thailand	Far East	1.09
Ireland	EU	10.76	Egypt	Middle East & Africa	0.91
Spain	EU	8.49	Russia	Other Europe	0.62
Greece	EU	7.99	China	Far East	0.62
Israel	Middle East & Africa	6.98	India	Far East	0.60
Taiwan	Far East	5.85	Sri Lanka	Far East	0.49
Hong King	Far East	5.65	Bangladesh	Far East	0.43
Brazil	South America	4.05	Madagascar	Middle East & Africa	0.41
Korea S.	Far East	3.63	Vietnam	Far East	0.31
Costa Rica	Central America	2.96	Myanmar	Far East	0.15

Source: Werner International, http://www.inforesint.com/learn.htm

A closer examination of business practices among textile and clothing firms in South Africa, Vietnam, and Morocco reveals that a more nuanced look at local incentives and cluster organization, gleaned through carefully structured interviews about ownership, linkages to international commodity chains, business practices, and workforce development practices, is required to understand how each firm and each cluster fights for recognition from the international market.

What are "Footloose Industries"?

The Heckscher-Ohlin international trade theorem explains international trade flows in terms of relative factor endowments and thus relative factor costs. Industries with low capital equipment investment and minimal skilled labor requirements, traditional examples of which are found in the textile and clothing industries, are said to be acutely sensitive to unskilled labor costs, such that a rise in wages in one country may lead to displacement of manufacturing to a lower labor cost platform. This transplantation is done relatively easily, given that large production infrastructure is not required, and is especially attractive in countries where an export

processing zone provides firms with the required physical and export infrastructure. Because of such ease of physical transplantation, such industries are sometimes referred to as 'footloose' (Caves and Jones, 1985).

Footloose industries were thus hypothesized to be the first kind of export industries transplanted into a developing country, where the capital assets and advanced infrastructure required to support more sophisticated industries are scarce. Moreover, since developing countries have a distinct comparative advantage with respect to cheap labor, the theory goes, they must have an easier time in attracting FDI for these "footloose" industries. Thus, a focus on attracting FDI into these footloose industries is hypothesized to be an important element in the design of developing countries' strategies for increasing FDI overall.

Brief Textile & Clothing Industry Overview

What do internationally competitive firms in the textile and clothing industries and artisanal promotion look like today?[3] Developing country producers and exporters seeking to enter world markets need to know how the commodity chain is organized and how to operate strategically across the chain instead of contributing goods or services at one point in the chain. This requires a broad understanding of how modern manufacturing is organized, important pipeline innovations going on in the U.S. such as lean retailing and short-cycle/mass-customization production strategies, how U.S. consumers buy garments today, and what is expected of foreign suppliers into the U.S. market.

Diverging Pipelines

An important characteristic of the modern textile-clothing pipeline is the diverging channels that these two seemingly co-joined stages of production now play. Whereas clothing manufacture was once dependent on domestic presence of textile mills, that traditional arrangement has been severed due to the transformation of the upstream end of the chain through high capitalization.

Thread and fabric are now produced in large-scale, heavily mechanized operations, often far removed from the sources of fiber. The West African nation Mali, for example, produces an

[3] This section draws from Abernethy et al. (1999), Dickerson (1999), Glock and Kunz (2000), and Gereffi et al. (2002).

important share of world cotton but (to its regret) does not have one internationally competitive spinning or weaving mill within its borders.[4] Its traditional textile finishing industry (dyeing, tailoring, and embroidery) uses *imported* cotton fabrics for its base (Salinger, Crook, Perrings, and Sylla, 1999; Salinger and Carpenter, 2001; Salinger 2001a).

Conversely, garments are now produced in many countries around the globe in smaller-scale, highly labor-intensive operations, often far removed from the sources of fabric. The presence of export processing zones (EPZs) in some countries, giving domestic firms access to imported fabric and other inputs at world prices and free of domestic tariffs and taxes, has helped such autonomous assembly operations to thrive (Radelet 1999). The southern African nation Madagascar, for example, has benefited from transplantation of Chinese-Mauritian clothing industry expertise to Malagasy EPZs. Before the domestic political crisis began in late 2001, investments in Madagascar stimulated by passage of the Africa Growth and Opportunity Act (see below) increased exports – especially of apparel – to the U.S. by 96.6% in 2000 and 72.3% in 2001.

Industrial Garment Manufacture

Organizing large-scale industrial manufacture of garments takes careful planning and management of the process of converting fabric into clothing. The first step to managing the commodity chain strategically is to be able to take charge of international input sourcing. New entrants into the clothing industry tend to supply labor only, i.e. only contribute to the cutting and assembly of garments. In many instances, their assembly services are managed at both ends by foreign companies who either ship inputs in or tell the local clothing firm exactly how to procure the inputs internationally. Downstream, local clothing companies often do not seek out their own destination markets but rather deliver goods on subcontract to larger manufacturers, brand label companies, or retailers in the foreign consumer market. In contrast to such contract services, Mexico's gradual expansion of up- and downstream services offered to international textile and clothing industry clients now includes both domestic input manufacture and significant capacity in downstream laundry and finishing facilities as part of "full-packaging" capabilities (Gereffi et al. 2002).

[4] The reasons for this involve Malian policy, poor energy and industrial infrastructure, and lack of reliable transport linkages to world markets.

In modern operations, garment design and pattern-making is computerized. A particular style is worked up using specialized software, which automatically converts into patterns and marker layouts for cutting. Design specifications can thus be transmitted by email to producers anywhere in the world – if they are equipped to receive and process such information. Computer-driven cutting systems and die-cutting presses are also common in the most advanced garment manufacturers. Clothing assembly operations, however, still require human skill to be undertaken properly and thus tend to be less computerized. The size of a garment firm may vary from several hundreds or thousands of workers in operations which manufacture casual garments to smaller enterprises where fashion sewing is concerned.

Clothing companies pay attention to throughput volumes (the amount of work that can be completed in a specific amount of time), throughput time (the amount of time it takes for a single unit of a style to go from cutting to shipping), and the amount of work in process (the number of garments under production at any given time). Attention must also be paid to flow-through and constraints along the production line, where a myriad of operations are required to convert flat goods into apparel. Production managers normally think in terms of how many “standard allowed minutes” it takes for a normal operator to complete one operation using a specified method. These productivity standards allow for more careful planning of production operations, as well as benchmarking operators to make future efficiency improvements. Operations must be scheduled and balanced along the work line in order to avoid bottlenecks.

Production systems commonly used to mass produce apparel in industries around the world include the progressive bundle (as bundles of garment parts are moved sequentially from operation to operation), unit production (automated overhead transportation of garment components from station to station for assembly), and the modular production system (wherein modules or teams of equipment and operators operate as mini-factories). Most of these notions are quite foreign in developing country clothing firms. As enlarging production capacity and improving efficiency of complex production operations become progressively more important, workforce training in these areas becomes critical.

Lean Retailing

Modern garment suppliers’ operations are tightly linked to the retail sector. Clothing “seasons” used to be much more easily demarcated in American stores, but garments hang for a much shorter period of time in the shops nowadays. Rapid inventory turnover, combined with high

ownership concentration in the retail sector in the U.S. and other modern economies, results in retailers exerting great power vis-à-vis producers.

The latter must be able to label, track, and respond to product orders in real time according to style, color, fabric, and size. This is done on the basis of electronic information exchange between retailer and producer. Even if the producer is located off-shore, the firm must organize its output accordingly. Bar codes on sales tags attached at the production firm contain "SKU (stock-keeping units) codes" which are in turn read by computers at the point of sale. These computers track in-store inventories and automatically launch replenishment orders by SKUs to producers.

For competitive international suppliers, adoption of these practices is a minimum entry requirement for doing business in the U.S. Because "lean" retailers seek to minimize their in-house inventories, garment manufacturers are expected to pick up the slack and hold greater quantities themselves in order to be able to replenish "just-in-time." Turnaround requirements are tight, sometimes within a week. This gives off-shore producers in Mexico and the Caribbean a great locational advantage over Asian and other suppliers to the U.S. market. Domestic manufacturers in the U.S. still exploit this advantage as well, keeping some percentage of their production capacity within the U.S. in order to be able to respond in a timely manner to retailers' shifting needs.

Order sizes for garments into the U.S. market typically run in the many tens of thousands of units, making it almost impossible for developing country operations to contemplate entering the standardized clothing end of the market, given its current level of organization and production. Even meeting small orders of one hundred items per SKU will take organization across individual entrepreneurs. This is known in the trade as "jobbing." Jobbers are private individuals or firms acting as market intermediaries, assisting with cash-flow financing, collecting orders, subcontracting them out among smaller scale operations, and then handling export freight logistics. This model has been used quite successfully in Hong Kong, for example, to source garments from throughout East and Southeast Asia.

Mass Customization

Another element in the continuous innovation of industry best practices is with respect to mass customization of industrial production (Davis and Pine 1999). Technological applications are

being explored in the U.S. and elsewhere which will allow consumers to custom order garments by fit or design characteristics unique to them. Body image scanning and computerized garment design stations are just two of the techniques being researched that would allow custom-made products to be developed efficiently under mass production settings but with unique characteristics and delivered to the consumer's door. Developing country producers seeking to enter this business need to know that computerization and modern telecommunications technologies are important tools for the sewing businesses of the future.

Shifts in the U.S. Commodity Chain

American consumers used to buy largely brand label goods. Design and manufacture of these goods were controlled through branded name companies, and then distributed to retail outlets. Cost is less of a deciding factor to the brand label consumer, who is seduced by the brand image into paying a higher price for his/her article.

Today, many retail companies seek to cut out the middle-man and design their own lines of clothing which they subcontract for manufacture via "private label" firms or even directly in collaboration with textile companies. Cost is definitely a deciding factor for private label consumers, many of whom are attracted specifically to the lower prices. As a consequence, private label manufacture tends more frequently to be sourced from low-cost suppliers overseas than from domestic companies.

U.S. Consumer Behavior

Understanding the pipeline structure and behavior of the U.S. clothing market is important for foreign firms to figure out where their niche might be. There are many ways to stratify that market, according to destination consumers, season, or degree of complexity of the garments. Men's/boys garments are somewhat distinct from women's/girls, although that is less true for basic/commodity clothing like trousers, jeans, knit shirts, woven shirts/blouses. Casual clothing is far easier to outsource, because it is less subject to seasonality, than are higher fashion items. On the other hand, at higher levels of per capita income consumers also seek to differentiate their image through unique fashion garments. This opens interesting opportunities for international clothing producers who can design and bring to market niche products. The U.S. market, which contains a large proportion of consumers with ethnic ties and thus a potential openness to foreign "looks," offers exploitable commercial opportunities for African, Arab, Asian, and Latin influences in clothing design.

To successfully take advantage of these opportunities, foreign entrepreneurs need to understand what American consumers buy and how they buy it. For starters, many Americans no longer shop in stores. Instead, they may browse Internet shopping sites or infinite numbers of mail-order catalogues, sent through the mail to their homes. Consumers order on-line or by phone via credit card, and the goods are delivered by the post office or private shippers directly to the consumer's home. Such purchasing practices are particularly common for "commodity clothing," i.e. standardized apparel items, but are less practical with fashion clothing where consumer feel and sampling is still important for discerning preference.

U.S. Preferential Trade Agreements

As part of their cost calculations, U.S. clothing importers must also consider the rate of import duty applied at U.S. borders. Average duties are on the order of 17% on top of the CIF (cost, insurance, freight) price of the imported garment. This represents a significant margin. In comparison, preferential trade agreements with U.S. commercial partners under the North America Free Trade Agreement (NAFTA), the U.S.-Israel and U.S.-Jordan bilateral free trade agreements, the Caribbean Basin Trade Partnership Act, the Andean Trade Preference Act, and the Africa Growth and Opportunity Act (AGOA) offer duty-free or significantly reduced duties on textiles and apparel products imported from these commercial partners.[5] These duty advantages are usually linked to rules of origin restrictions on upstream stages, limiting some or all imports to U.S. or partner country origin. "Triple transformation" requirements, typical of textile and clothing clauses in most of these agreements, impose rules of origin restrictions on apparel, fabric, and thread.

Such privileged access to the U.S. market can have a profound impact on the "competitiveness" of a developing country textile and clothing industry. In 1983, prior to NAFTA, the big four Asian exporters (China, Taiwan, South Korea, Hong Kong) provided two-thirds of U.S. apparel imports, and Mexico and the Caribbean Basin nations only supplied 3.8 percent. In 2002, Mexico and the Caribbean Basin nations provided 29 percent of our imports, and the same big four only 25 percent. The introduction of duty-free access to the U.S. market via "qualifying industrial zones" (QIZs, i.e. another form of export promotion zone) in Jordan under the U.S.-

[5] In addition, free trade agreements are either awaiting final Congressional approval or are in negotiation with Singapore, Chile, Morocco, Central America, Australia, and the five countries of the Southern African Customs Union.

Israel Free Trade Agreement, in advance of the U.S.-Jordan Free Trade Agreement, led to spectacular increases in Jordan's clothing exports to the U.S., albeit from a small base (Salinger, Belghazi, Plunkett 2002). This success was due, in part, to the rapid influx of South Asian investors into the Jordanian QIZs. AGOA-eligible sub-Saharan African countries are finding similar interest on the part of foreign investors, especially in Madagascar, Swaziland, Lesotho, and Kenya, from which apparel exports to the U.S. are beginning to climb.

U.S. Interest in Foreign Supply: How to Get Orders

Why are Americans increasingly turning to foreign sources of supply for their apparel needs? Quite simply, either because a foreign supplier can offer better value for the money, can provide a product that does not yet exist in the U.S. market, or can supply a product with better attributes.

Few emerging market textile and clothing industries have any understanding of the workings of the international market and how to sell products under such demanding conditions. For the micro, small, and medium enterprises which have only ever produced for the local market, the prospect of identifying potential buyers in the U.S. is extremely daunting. Although professional associations of weavers, tailors, and artisans exist in many developing countries, few have any commercial linkages to export markets abroad.

For a potential new supplier to the U.S. market, it is a good idea to actually go and look at what is being bought, made, and imported. Organizing such a prospecting trip would require considerable assistance from knowledgeable agents on the U.S. side, and should include visits with a diversity of stakeholders in the market, including retailers, brand label manufacturers, private label manufacturers, brokers/representative agents, and U.S. Customs officials and clearing agents. It may also be useful to schedule such a trip around one of the many trade fairs, not as participants, but merely as observers. During such a trip, it will be important to buy merchandise in order to bring back samples for test making up and costing.

While in the U.S., it would also be desirable to identify the services of an agent or market representative who can work on foreign firms' behalf to find contracts. The ideal broker should be someone with good connections in the industry and strong market knowledge. S/he should be trustworthy and "hungry" for business, and committed to the complexities of working in a challenging African environment.

Difficulties to Overcome Upon Receipt of Orders

Once a firm has landed a contract, it must be understood that there are no second chances in this business. One firm's bad experience can sour the U.S. reputation for all manufacturers from country X. Orders should not be accepted if they are not realistically achievable. Servicing them requires careful planning to be sure that raw material suppliers are known or pre-identified, logistics channels into the country for imported raw materials are understood, manufacturing capacity is ready, and the order can be turned around in the requisite amount of time.

Before accepting an export contract, the firm needs to understand what standards are required and what defect rates will be tolerated by the customer. A supplier needs to ensure that it can meet the standards not only with sampling, but with the bulk order. The cost of failure is high. Claims departments in U.S. import companies survive by filing against non-performing or defective suppliers, and the financial risk of a sour deal is high. It is recommended that no order for high fashion clothing be accepted (it is likely that none will be offered). Given the distance from the consumer market, supplying fashion items to the U.S. would be extremely risky. This part of the sector is prone to last-minute design and color changes, which cannot be easily monitored from most foreign platforms. Because the market for these garments is extremely seasonal, unsold stock will have *no* market value next season.

Constant communication with the client, whether a broker or an end-user, is critical. Foreign manufacturers should be prepared to monitor emails and faxes constantly, responding within two hours of their receipt. Foreign customers will need assurances that you are on top of their orders, and will want to know when an order expects to ship. Because of the time zone difference, it is advisable to have someone in the firm who works "New York hours" – at the plant or from home, as necessary – in order to be by the phone or computer during the customer's work day.

Textile and Clothing Industry Competitiveness Strategies

Textile and clothing industries in three very different countries are aiming to increase their penetration of the U.S. market. Only one of the three can be considered to have an extremely low-cost workforce, only one of the three is in geographic proximity to major consumer markets, and only one of the three enjoys modern industrial infrastructure. All three have had significant

numbers of workers employed in their textile and clothing industries, yet none of the three in the late 1990s or early 21st century can be considered to have internationally competitive industries.

- ***South Africa*** resembles a developed country in many ways, especially in terms of physical infrastructure and level of industrial sophistication. South Africa's industrial labor force is also highly organized, and worker wages have been high relative to productivity. In addition, years of international economic isolation under apartheid atrophied South African textile and clothing firms' commercial linkages to international markets. Behind a high wall of tariff protection, South Africa produced for domestic and limited regional consumption. Since the mid-1990s, South African textile and clothing firms have aimed to reinsert themselves as internationally competitive. With passage of AGOA in 2000, South Africa's exports to the U.S. expanded by almost 50% (2001-2002) compared with levels just prior (1999-2000).
- ***Vietnam***'s labor force is one of the least expensive, yet more productive, workforces around the world. As the country's centrally planned economy opens increasingly to international market interaction, Vietnam's textile and clothing industries seek to rejoin fellow southeast Asian industries in supplying those markets with product. Yet industry observers are stymied as to how to penetrate the international commodity chain, with still limited exposure to multinational companies or brokers who can link them to consumer markets. Personal connections between firms in the south of Vietnam and members of the Vietnamese diaspora residing in the U.S. may help to overcome this information gap.
- ***Morocco***'s textile and clothing industry has been an important source of employment for several decades. However, the industry has developed in two distinct directions, supplying the domestic market behind high tariff barriers, on the one hand, and supplying international clients, mostly in Europe, with limited assembly operations, supported by a temporary admission scheme which allows duty-free access to imported inputs for export industries. However, organized labor's wages are not low in Morocco, relative to international productivity standards, and the industry has shed a significant number of jobs in recent years. The cluster is hopeful that implementation of a free trade agreement with the U.S., piggybacked on top of an existing one with Europe, will be a new impetus for foreign direct investment.

The following sections examine each of these cases in somewhat greater detail, with an eye for the qualitative factors that enter into each country's competitiveness enhancement strategy.

South Africa

In the late 1990s, Michael Porter's work had already found a very receptive ear in South Africa, where dismantling of the import-substitution economy had begun. As part of a survey of textile and clothing companies in South Africa, undertaken in order to assess the potential for competitive export of these labor-intensive manufactures, Porter's term "cluster" had become a very hot notion and was on all South African economists' lips.

In order to gauge the state of preparedness of South African firms for increased openness with international markets, the Department of Trade and Industry, the textile and clothing professional associations, and the labor union agreed in 1996 to a study of the policy issues involved in promoting competitiveness of the industries.[6] Interviews were conducted in 1997 by American and South African researchers with over one hundred firms in three provinces of the country (Gauteng, KwaZulu-Natal, and the Western Cape). These firms represented a range of sizes, product types, locations, plant modernity, labor relations, retail channels, and relative dependence on exports and imports. The majority of firms did both some design and manufacture, although several assembly operations and a few design firms were also included.

A tale of two companies, stylized from the survey results, is instructive. One large company (company A) produces for the mass market, has little computerization of inventory, design or administrative functions, has not invested substantially in new machinery in South Africa, and quite explicitly views labor relations as purely a matter of discipline. The first company, company A, has fallen on hard times and has downsized, with the ultimate goal of moving production out of the country all together. Neighboring countries in the region are seen as more flexible (i.e. have no or little organized labor and lower wages) and offering greater likelihood of profitability.

A second large company (company B) has a more mixed market segment, ranging from up-market, relatively specialized products to more mass market items produced in long runs. Company B has also introduced computerized design and administrative functions, and is aware of and experimental in implementing modern methods of organization like just-in-time inventory control and flexible methods of moving work along the line. Company B views labor as an ally in the drive for increased competitiveness, promoting labor through the ranks and

[6] Research undertaken 1996-1998 under contract to USAID's Equity and Growth through Economic Research (EAGER) Trade Regimes and Growth cooperative agreement. See Salinger, Bhorat, Flaherty, and Keswell (1998) and Salinger and Flaherty (1998).

training workers for multi-skilling. Workers with suggestions that save money are rewarded and bonus percents are increased as workers get closer to their targets. Company B is profitable and expanding. Although it has explored moving out of South Africa, it believes that there is plenty of opportunity to make money in South Africa and will stay.

The lessons from these two stylized firms are clear. While the first firm does have external conditions which are difficult, it has done little to respond creatively to the challenges. Its response is to continue to do what it has always done, only in a different location. It chooses locations which still look more like the South Africa in which it was for many years successful. The second firm, in contrast, is forward looking and flexible, changing its internal organization and strategy in response to changing external conditions.

A key conclusion from the interviews was that firm size did not matter. Economies of scale do offer certain opportunities denied to small firms, particularly with regard to investment in information technology. Size by itself, though, is not a substitute for the other factors highlighted above. Management education and spirit, the structure of the firm, and its labor relations swamp size as determinants of success.

Another key conclusion is that the while the linking of textile and clothing interests into one cluster is an appropriate analytical framework, the fiber-fabric and clothing ends of the commodity chain may have independent competitiveness interests. Implying that all interests along the chain should be convergent was a strategic blunder for the clothing end of the industry because it put blinders on the clothing companies regarding alternative non-South African sourcing of fabric and trims. It was recommended that each industry should focus on independent competitiveness strategies with respect to regional and international market prospects.

While most firms continued “business as usual” in the face of increased pressure to compete globally, an interesting subset of firms was experimenting with alternative ways of doing business. For some, this meant moving part or all of their manufacturing off-shore, within southern Africa. For others, this meant process innovations in South Africa such as developing new product lines, new information management systems, new inventory control methods, new overseas market contacts to input suppliers and to final clients, new means of ordering work flow through the shop floor, and new forms of labor relations to improve worker productivity.

Other factors implicated in competitiveness were increased product specialization (i.e., reduced product diversity), linked by a design/marketing central to handle orders with international buyers; increased product flexibility; (i.e., specialization in what a firm does best as long as the firm can spot or even initiate design trends and respond to them quickly); improved CAD/CAM/computer-aided marketing/computer-aided business planning; acquisition of other new technologies; and export learning (i.e., learning about such things as timing, packaging, shipping procedures, paperwork, and quality standards). The firm that achieves flexible specialization will exhibit several if not all of the above characteristics.

Other findings of the work included:

- Clothing firms are heavily penalized by **escalating tariff structures** which protect domestic raw material and input manufacturers against imports. This penalizes firms which prefer, for various reasons including quality and service, to access inputs from foreign suppliers. Access to foreign suppliers at world prices is a critical component of the success of major exporting countries.
- South African industries are penalized by **economic policy instability**. Stability, or at least predictability, of macro and sectoral variables such as exchange rates, interest rates, wages, tariffs, etc. are necessary to minimize risk, encourage exports, and facilitate longer range planning.
- "**Training**" needs to be at both management and worker levels. Management needs help in a wide range of modernization efforts, including in realizing how its workforce can be a potential source of valuable innovation ideas, thereby improving productivity, increasing profitability, and ultimately resulting in higher wages for a more highly skilled workforce.
- **Labor market flexibility** in terms of differential wage scales for urban and decentralized firms and in terms of accessing labor via subcontracting rather than direct hiring processes appeared to be a critical element of firms' competitiveness strategies.
- The clothing industry in South Africa was missing several **product niche opportunities** (Mandela shirts, Afro-centric designs in clothing, Afro-centric clothing itself, wildlife/sportswear products,...), both in domestic and foreign markets. Clothing exporters should focus on product development and licensing to attract and retain consumer loyalty.
- Unlike in the U.S., the South African government does not appear to support **applied technology research and development** in the textile and clothing industry. Such R&D is

critical to the sustained competitiveness of the U.S. industry, and should figure high on the list of public-private partnerships in the textile and clothing industries in South Africa.

- South African businesses are novices at exporting. While a few firms may be experimenting with foreign licensing (rather than export) of a successful South African brand, or domestic licensing of foreign brands with the eventual goal of taking those names overseas into new markets, the vast majority of businesses are still focused on the domestic market and do not care or know how to **penetrate export markets**. This means more than simply coming up with "competitive products" to sell abroad, but rather means learning how to **penetrate the global supply chain** with effective service and support to the client importers overseas.

Stakeholders to whom these findings were presented in February 1998 reacted with great enthusiasm to the report. The study team was praised as the first group of academics who combined theory and practice, understood industrial trends and economic constraints, and offered both helpful *and* uncomfortable observations, comments, and criticisms. The private sector wanted to see this research inform policy makers both in the Department of Trade and Industry and the Parliament. Clothing Federation representatives also recommended that the analysis be extended to the regional level.

Vietnam

In 1998, the Hanoi-based Institute of Economics launched a study of manufacturing sector competitiveness in Vietnam, with special attention paid to the textile and clothing industry.[7]

Since the introduction and implementation of market-oriented reforms in 1989, including trade liberalization, Vietnam's economy has changed significantly. While entry to foreign trading activities has been relaxed and the tariff system has been simplified, non-tariff barriers (e.g., quantitative controls, foreign exchange restrictions and surrender requirements, minimum price lists and customs surcharges, and special customs formalities) still inhibit liberal cross-border exchange and favor import-substitution activities. Yet the government has identified export growth as a key objective of its overall industrialization and economic growth program to reduce

[7] This section is drawn from papers prepared by the "Trade Liberalisation and Competitiveness of Selected Manufacturing Industries in Vietnam" project, undertaken with support from the International Development Research Centre and the Canadian International Development Agency, with training and technical assistance provided by John Cockburn and Bernard Decaluwé (Centre de Recherche en Economie et Finance Appliquées, Université de Laval, Quebec, Canada) and the author. The project's outputs (Huy et al. 2001) are summarized at www.vern.org.vn.

poverty. As a result, inefficient allocation of domestic resources and foreign investment continues to plague the economy.

A number of factors have been credited for Vietnam's export success in textile and garments including (i) a reasonably "realistic" exchange rate; (ii) a reasonably effective duty drawback scheme and efficient industrial zones; (iii) a reasonably open posture toward foreign direct investment; (iv) low wages for unskilled labor; (v) Vietnam's fortunate location in a region of exceptionally high, export-oriented growth; (vi) some industrial export experience of textile and garments firms prior to economic reform; (vii) the availability of female workers with good quality in terms of intelligence, diligence, and high rates of literacy; (viii) low investment cost; (ix) the important role of regional operator in providing essential marketing links and required raw materials; (x) the availability of relatively efficient internal transport and shipping facilities.

Although decreasing, the public sector still contributes 53% of total textiles industry output. Most comes from centrally managed state-owned enterprises (SOEs), which enjoy easier access to capital than local SOEs. The private sector grew quite rapidly until 1996, but has slowed since. Cooperatives, although important in the past, are now almost non-existent, and the share of household enterprises has declined as well. The textile industry's foreign-invested sector has become the second largest ownership sector in the textile industry (30.5% in 1999). Ownership structure in the garment industry and its evolution are similar to those of the textile industry.

While vertical linkages between textile industry up- and downstream is weak, mixed production, where textile firms produce both T&G items, is relatively common. Firms that succeed in this strategy are normally those that have access to export quotas for their garment products.

The impressive success of Vietnam's garment industry is attributable to favorable demand conditions associated with the opening of access to quota-regulated markets in 1992. Access to EU quota markets is widely perceived to have given a jump-start to Vietnam's textile and garment exports to the large markets of developed countries. Until the recent past, these quota-regulated markets played an important role for Vietnam, increasing in share of total textile and garment exports from 22% in 1993 to 42% in 1998. Since late 1998, Vietnam's garment export firms have aggressively explored non-quota markets, most notably Japan, South Korea, Taiwan, and ASEAN. Exports to these non-quota markets are mainly done by foreign invested firms, mostly back to their home countries.

Despite these export achievements, a number of weaknesses have also shown up. The industry has never fully exploited some export quota categories, due to the absence of appropriate technology, the lack of some types of skilled labor, and lack of appropriate business skills. Second, the slowdown or even decline of export growth in recent years (-3.5% in 1998, and 4-5% in 2000) suggests vulnerability of Vietnam's garment industry in face of shocks and fiercer international competition.

Domestic garment production – driven largely by household enterprises – has played an increasingly important role in satisfying local consumption. Meeting local demand for textile products is still heavily dependent on imports due to very limited capacity of the textile industry. Vietnam's textile industry produces basic products by international standards such as fibers, fabrics, canvas, and knitwear. Most products (except knitwear) target the low-income, domestic population. Imported goods play a dominant role in meeting demand for high quality products. Because of obsolete technology, which results in low quality of domestic outputs, the textile industry has been losing domestic market to imported products, which have considerably increased in recent years.

The Government has made considerable efforts to upgrade technology in the textile sector, providing long-term loans on preferential terms to textile SOEs. Most investments were made in foreign currencies and therefore were exposed to foreign exchange rate risk. Although government efforts to upgrade equipment have been concentrated mostly in textile enterprises, garment industry technology has generally been upgraded more effectively, perhaps because of its lower capital requirements. Many garment enterprises are now capable of making rapid production adjustments in response to product style changes. Some enterprises have invested in new technology and computers in some production functions such as cutting. These changes help to enhance competitiveness of garment producers, most notably their ability to respond quickly to changing demand.

Analysis of qualitative factors inhibiting enhanced competitiveness of Vietnam’s T&G industry recommended the following:

- Because the **overall policy environment** is more important than sector-specific incentives offered by some Government promotion programs, the Government should support

comprehensive reforms of the banking system, SOEs, private sector development, trade policy etc., to make the policy environment more business-friendly and conducive to the creativity and entrepreneurship of Vietnamese businesses.

- Increased Government **investment in infrastructure and human capacity development** would help the sector more fully capture business opportunities arising from the accelerated reforms and further integration into the world market. Training is particularly needed for managerial positions, as it is the managers who make strategic decisions on moving the firms up the value chain. To do this challenging job, managers are required to be creative and entrepreneurial, yet motivated to work for the firm after training. Existing regulations on management-level wages in the SOEs may preclude these firms from attracting high-skilled labor, thus further underscoring the importance of SOE reform.
- **SOE and banking reforms** are required in order to level the playing field for all firms, regardless of their ownership structure. These reforms, together with improvements in mechanisms for allocation of EU quotas (e.g., auctions), will help domestic private firms to enjoy the same access to bank credits as SOEs.
- With regards to helping garment export firms have **access to reliable and low-cost input suppliers**, there are two options available. The first option, which appears to be widely supported by policy makers, is to develop the upstream textile sub-sector. This solution may be costly, however, as Vietnam presently does not appear to have advantage in the capital-intensive textile industry. An alternative solution, albeit somewhat unconventional, would be to deregulate the telecommunications and Internet services sector. Such a move would reduce the costs for these services and considerably increase use of the Internet by firms to access a much wider worldwide network of inputs and machine suppliers, and clients. This policy would bring additional, large, positive externalities on the whole economy.
- The role of **cluster institutions**, e.g., professional organizations, overseas trade representatives, training services, and other support institutions should not be underestimated. These organizations can provide world market information to textile and garment firms and facilitate firms' access to overseas distribution networks, which is currently a major constraint to their business. The provision of technical assistance in the form of well-designed training programs for the labor force of Vietnam and capacity building for support institutions would also be a good investment.

Morocco [8]

Morocco's textile and clothing industry has been hit in recent years by increased competition from central Europe, sub-Saharan Africa, Mexico, and the Caribbean. The Moroccan textile industry association, AMITH, has bemoaned the loss of 40,000 jobs over the past several years. In August 2002, the government announced a $2 billion investment program to stimulate new employment in the sector, encompassing cuts in required employer benefits contributions, reduced energy costs, investment assistance for the acquisition of land and buildings, and low interest loans. The government has also agreed to make funds available to textile and clothing companies for management consultations regarding modernization strategies, for international advertising campaigns in Europe, and to help finance textile worker training programs to increase the multi-skilling of basic operators.

Over 90 percent of Morocco's textiles and clothing exports presently go to Europe. However, a number of U.S. clothing firms operate in Morocco. Companies based in Morocco pursue a variety of brand and market niche strategies, from lower cost, discount products to upper end, fashion garments. One model is the importation of fabric and trims from Asia for cut and assembly into finished garments and export to the U.S. Brand label garments assembled by these companies in Morocco are sold for distribution by large, well known retail companies in the U.S. Finished clothing is either shipped from Morocco, trucked from Morocco to Spain for containerization, or (in cases when time pressures are mounting) air freighted directly to the U.S.

A second model pursued by U.S. clothing firms in Morocco is diversification into production sharing arrangements for European clients. Some companies note that Morocco's clothing industry can no longer specialize in basic "commodity" clothing, because its cost structure is too high, but rather should specialize in higher end products and emphasize the ability to turn around small orders into the EU with minimum turnaround time. When operating as a subcontractor in Morocco for a European importer, "two-stage processing" rules of origin stipulate that European or Moroccan cloth must be used as the production input. This implies that for textiles produced in Morocco, both the fiber and dyeing/printing operations would have to be of Moroccan origin. Alternatively, Moroccan fabric exports based on imported gray cloth

[8] This section draws from Salinger, Abbott, and Abdelkhalek (2000) and Salinger, Plunkett, and Belghazi (2002).

would be acceptable as long as the dyeing/mercerizing/printing processing at least doubled the value-added of the final cloth. Clothing produced in Morocco for export must either be made from European fabric or fabric which is woven or knit and assembled in Morocco. U.S. clothing firms have no problem meeting these rules of origin requirements and employ a combination of the two models to successfully operate in Morocco.

AMITH recognizes the importance of understanding and penetrating the marketing value chain for clothing in the U.S. Rather than targeting large-surface retailers such as Wal-Mart or Sears, Roebuck and Co., Morocco's exporters are targeting the production of medium-quality knit and denim garments for sale to smaller chain stores in the U.S. Other firms take advantage of multinational corporation integration across brands, private labels, and retail outlets. For instance, one Morocco-based, European-owned clothing firm mentioned that since its primary retail client in the U.K. was recently bought by Wal-Mart, it is now preparing test orders to be sold to Wal-Mart in the U.S. Moroccan clothing companies work constantly to improve product quality by investing in new equipment, expanding the range of services they offer (including washes and finishes), adding fancier trims, and thereby increasing value-added. AMITH has also established strong linkages with the national professional training department, opening a specialized graduate school (*école supérieure*) for textile and clothing studies in addition to the more basic textile and clothing vocational training institutes which exist around the country.

The pursuit of lowest cost strategies is precluded in Morocco due to the higher cost of labor, relative to Asian, African, and Latin American competitors. In addition to high base wages, clothing companies may pay above the minimum industrial sector wage, plus piece rate bonuses, in order to retain trained workers, minimize turnover, and invest in worker quality and productivity. The minimum industrial wage of 7.26 dirhams per hour was raised in April 2000 by 10 percent to 8 dirhams per hour.[9] The workers' union is trying to reduce the clothing workers' work week from 48 to 45 hours per week, which puts further cost pressure on the firms. In addition to wage and work hours policies, Moroccan exporters must also contend with some level of overvaluation of the domestic currency, which further penalizes the cost of their exports when expressed in Euros or other foreign currency.[10]

[9] In March 2003, one U.S. dollar equals almost 10 Moroccan dirhams.

[10] Morocco's exchange rate is managed by the Moroccan central bank using a trade-weighted basket of reference currencies.

Such pressures have led some clothing firms to outsource some of their production operations to informal subcontractors within Morocco. One firm indicated that it uses smaller, independent "cut-make-trim" (CMT) subcontractors in Morocco for only 5 percent of total production now, but expects to increase that to 15-20 percent of its turnover in the next few years. Higher use of outsourcing incurs greater quality control issues, however. Other options being considered by international clothing firms operating in Morocco include moves to lower wage countries in Africa, such as Kenya or Madagascar, where AGOA's duty advantages are well known. However, the opening of free trade negotiations between Morocco and the U.S. in January 2003 will likely forestall such footloose behavior for the moment.

Moroccan clothing firms are aware that when textile and clothing quotas are completely eliminated under the Agreement on Textiles and Clothing rules in 2005, cost and qualitative competitiveness issues will dominate production-sharing decisions around the globe. This will likely have the effect of concentrating production in a smaller number of the most competitive global producers (such as China, India, Pakistan). The implication for Morocco is that its clothing producers will have to distinguish themselves in some way – **locational advantage, cost advantage, skill advantage, product advantage, trade preference advantage** – if they are to grow in the global market. With Moroccan soon able to boast of "double trade preference advantage" (vis-à-vis both Europe and the U.S.) in addition to its geographic proximity, Morocco could position itself as the Mexico of Europe to attract U.S. foreign investment seeking access into European markets, just as foreign companies have invested in Mexico in order to take advantage of NAFTA access into the U.S. and Canada.

Conclusion

This paper synthesizes insights gained from three developing country textile and clothing industries. All three share a history of some degree of isolation from world markets, either due to political circumstances (South African apartheid, Vietnam war and adherence to the COMECON trading system) or limited commodity chain capacity (Moroccan industry's traditional links to EU markets for assembly services). Despite the fact that only one of the three cases explored here can be considered to have "low cost labor," all three industries are turning to qualitative factors to enhance their competitiveness profiles vis-à-vis global markets, especially after 2004 – strengthening their cluster institutions, developing both up- and downstream ends of the

commodity chain, exploiting preferential trade agreement advantages, and working with their governments to secure public support for cluster support activities.

This has implications for how we teach international trade and what kinds of microeconomic data collection we undertake in the field. While cost competitiveness (in economic, or real, terms) is an important element of overall firm strategy, researchers need to collect measures of qualitative competitiveness as well. This will allow us to provide more useful benchmarking to developing country stakeholders as they learn to compete in the global market.

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