Protectionist policies have hobbled growth

Reforming Nigeria's textiles and garments industry

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Key Recommendations

- In the quest for inclusive growth, government should craft policies for a more competitive textile and garments industry, particularly the labour-intensive segments with the potential to foster growth.
- Since not all sub-sectors in the textile industry are labour-intensive, and capital in Nigeria is also expensive and scarce, government policies on the sector must be finely crafted to target job creation only where this is a realistic objective.
- Policies that force sub-sectors in the industry to rely on one another have failed whilst locking in inefficiencies. Government should discard these to allow competitive sourcing of inputs, including from regional and global markets.
- A targeted approach to stimulate exports potential should be the focus of policy from the outset, as this alone carries the potential for sustained growth in the sector.

A major focus of policymakers in Nigeria is the quest for inclusive growth. From this perspective, stimulating growth in labour-intensive sectors with the capacity for mass job creation is a key policy objective. The textile and garment industry as whole, based on similar structures in other countries, has such a potential for mass employment. For instance, Bangladesh has established itself as a major textile and garment hub. A survey by the Bangladesh Bureau of Statistics showed that the industry directly employed about 4 million people in 2016 and accounted for 40% of manufacturing employment, and 8% of all employment.

However, the industry in Nigeria has been plagued by a protectionist policy, encouraging it to depend solely on local demand. Policies have also promoted vertical integration, forcing sub-sectors to rely on other, less competitive sub-sectors. This domestic focus has limited both their global competitiveness and their ability to participate in international markets. At the same time, the domestic industry has not been spared international competition. The continued drop in global trade costs, as well as the fact that garments are non-perishable and can easily be smuggled across borders, has exposed the industry to competition from major foreign players.

The policy focus on domestic demand has led to the slow decline of Nigeria's textile and garment industry. Focus should instead shift towards removing the forced reliance of sub-sectors on other local sub-sectors and re-directing the industry towards exports and greater participation in global value chains.

Structure of the textile and garment industry

Although the textile and garment industry as a whole is labour intensive, this varies across its sub-sectors. These sub-sectors range from the production of raw materials to the manufacturing of clothing. First there is the production of fibres, either natural from agricultural products like cotton or man-made from artificial fibres like polyester. Then there is the production of yarn from fibres, involving activities such as ginning, carding, combing, spinning and dyeing. Then there is the production of fabric from yarn, with activities like weaving or knitting, bleaching, dyeing and finishing. Finally, there is the production of the finished product from fabric, which results in clothing, home furnishings or other industrial uses.

Table 1: Textile and garment industry structure

Fibres	Yarn	Fabric	Finished product
Natural Man-made	Ginning Carding Combing Spinning Dyeing	Weaving or knitting Bleaching Dyeing Finishing	Clothing Home furnishings Industry

These sub-sectors differ in terms of their structure and skill requirements. The production of fibres tends to be labour intensive, especially in the cotton sub-sector. The end of the production process, involving the transformation of fabric into clothing and home furnishings, is also labour intensive. At the same time, the intermediary processes with regard to the production of yarn and fabric have become very capital intensive and reliant on technological innovations and improved machinery.

For instance, in the United States the “textile and textile products” industry with $18 billion worth of value added employed only 113 900 people. On the other hand, the cotton production industry, with a production value of $5 billion, employed 126 000 people. The apparel manufacturing industry, with $9 billion in value added, employed 131 000 people. Cotton production and apparel manufacturing are thus relatively more labour intensive than the intermediary textile and textile products industry.

The same differences in labour intensiveness across sub-sectors are also observed in developing countries. In Bangladesh, for example, employment in the various sub-sectors is skewed towards the garment sub-sector, as shown in Table 2. If mass employment is the policy objective then certain sub-sectors are better policy targets than others.

Table 2: Employment in Bangladesh textile sector 2016

Type of mill	No. of unit	Production	Employment	Employment
Spinning	385	205 core kg	4 lakh	400,000
Weaving	721	215 core metre	80,000	80,000
Knitting	2800	410 core metre	60,000	60,000
Power loom	1065	40 core metre	43,000	43,000
Handloom	1,83,512	837 core metre	10.2 lakh	1,020,000
Dyeing Finishing	310	172 core metre	33,000	33,000
Garments	5063	44.4 core dozens	36 lakh	3,600,000
Sericulture	72	6.94 lakh kg	6 lakh	600,000
Jute		9.05 lakh ton		

Globalisation of the textile and garment value chain

Another feature of the modern textile and garment industry is the globalisation of its value chain. The products from each sub-sector are non-perishable and easily tradable, meaning they can be bought and sold around the world with ease. In addition, global trade costs, including tariffs, transportation and communications costs, have reduced significantly over time. Average import tariffs on all goods for both developed and developing countries fell from 14% in 1952 to 3.9% in 2005, according to the World Trade Report for 2008. In the *Economic Enquiry* of 2013 Dennis Novy used the example of the United States, where trade costs with major trading partners dropped 40% between 1970 and 2000.

The ease of tradability in the textile and garment sub-sectors, combined with the decrease in global trade costs, has resulted in global value chains that are competitive but spatially dispersed. Cotton is grown in one location with the yarn and fabrics industry operating in another location, and the finished goods produced in a third location. Given these characteristics, vertical integration from fibres to finished product in any one country is rare. The question for each participant then is what sections of the value chain do countries participate in?

The Nigerian experience

The Nigerian textile and garment industry has been exposed to the same pressures from an increasingly competitive global value chain. Historically, the industry in Nigeria was vertically integrated, with protectionist measures and generous oil-backed government support stimulating growth from the 1960s through the early 1980s. At its peak the industry reportedly employed 1 million people. However, the industry was not internationally competitive. Between 1980 and 1985 Nigeria exported almost no textile products, according to a 2013 study on the country's textile import restrictions.

The macroeconomic turbulence of the 1980s, which saw periods of high inflation and foreign exchange restrictions, as well as the withdrawal of support from the cash-strapped government, had significant negative consequences for the industry. At the same time, China emerged as an internationally competitive textile and garment producer. This exposed the Nigerian industry to fierce competition from cheaper Chinese imports, especially in the yarn and fabrics sub-sector. This happened despite the protectionist policies in place. Reduced trade costs, as well the non-perishable and lightweight nature of most textile products, saw imports bypass official restrictions with cheap imports smuggled into the country. The combination of reduced financial support from the government and de facto forced competition with international firms saw the sector decline.

Between 1985 and 2000 the number of textile manufacturing firms fell from 185 to 89, decreasing further to 16 in 2015. The tradeable nature of the industry, however, meant that domestic cotton producers did not suffer the same fate as textile manufacturers. As a result of the liberalisation of the currency in 1986 domestic cotton growers were suddenly more competitive and production increased from a low of 46 000 480lb bales to a peak of 459 000 480lb bales in 1995. Cotton production thus remained stable for a time, only starting to decline in 2010. It is currently at about half of historical production levels.

The garment industry, which is fairly labour intensive, remained stagnant throughout the 1980s and 1990s, but showed decent growth after the return to democracy in 1999. The textile, apparel and footwear sector grew at an average of 46.42% between 2010 and 2013, and had tripled in size in real terms by 2014. This growth was driven mostly by the garment industry. However, growth had been fuelled by domestic demand, with clothing and textile exports still insignificant. In 2017, only $33 million worth of textile and clothing products were exported, dominated by packing bags and raw cotton exports, as the Comtrade Database shows. At the same time, Nigeria imported $2.7 billion worth of textile products in 2017, with fabrics a significant part of those imports.

The structural problems are clear: Nigeria has a significant domestic textile and garment industry, but that industry is not competitive and does not participate in global value chains. Attempts to incentivise growth in the industry have focused on financial support and trade policy measures seeking to protect the industry from international competition. For instance, in 2009 the Federal Government established a N100 billion bond-funded cotton, textile and garment industry revival scheme aimed at increasing the industry's capacity utilisation. On the trade policy front, tariffs on some types of textile imports were increased to as much as 80%. At the same time some tariffs were reduced as part of the harmonisation with the Economic Community of West African States' (ECOWAS) common external tariff policy. Overall, government policies for the industry have had limited impact.

Five-year policy review

Over the last five years the policy environment has continued to focus on the use of international trade restrictions and direct fiscal interventions. Although the government was limited by its commitment to the ECOWAS common external tariff regime, it still used indirect methods to restrict imports of textiles and clothing. Specifically, it placed textiles, woven fabrics and clothes on the list of items prohibited from accessing foreign exchange from official markets. This is equivalent to a tariff on imported textiles and garments, as importers faced an extra cost. The Central Bank of Nigeria (CBN) also launched an additional N50 billion intervention fund through the Bank of Industry, again to “revive” the sector. This was mostly directed at the defunct textile manufacturers.

The policy focus has remained on reversing global dynamics in the industry and rebuilding a vertically integrated domestic industry, which for most of Nigeria's history has not been able to compete internationally. Crucially, the focus has mostly been on the capital-intensive sub-sector of the industry, with cotton growers and garment manufacturers receiving little support. The forced reliance on domestic sub-sectors has worked to the detriment of other sub-sectors, which could have been more productive if they did not have to rely on inefficient partner firms.

For instance, cotton producers, owing to the absence of organised domestic markets, have been forced to sell their produce to an increasingly small number of textile firms. The oligopolistic structure of textile firms implies that pricing is typically depressed, with textile firms having enough market power to force down prices. At the other end of the scale, the garment industry has been forced to deal with high production costs owing to tariffs on their key raw material –fabrics – ostensibly to support textile firms. These policies to “support” defunct textile manufacturers have thus hurt other sections of the value chain that could have been competitive.

Finally, restructuring the industry for international competitiveness and exports has not been on the agenda at all. Unsurprisingly, the sector has failed to live up to its potential and the comatose capital-intensive sub-sectors have not been revived.

Going forward

Going forward, policy for the textile and garment industry must focus on improving productivity and efficiency across the value chain and priming the sector for exports and participation in global value chains. Given the revolutions in the global textile industry, historical policy positions aimed at vertically integrating the sector are doomed to fail. The focus should there be on increasing the likelihood that each sub-sector of the value chain succeeds independently of other sub-sectors. Policy recommendations for the sub-sectors are as follows:

Cotton farmers

1. **Market development**: The creation or formalisation of markets should be a policy focus to allow farmers, who are mostly small-scale, to quickly and easily sell their produce at competitive prices, and to take advantage of modern financial planning tools.

2. **Agricultural extension services**: Agricultural extension services should be made available for farmers, specifically focused on increasing yields through better farming practices and disease management.

Man-made fibres

1. **Plastics to polyester**: Nigeria is in a key position to explore the man-made fibre sector, specifically polyester manufacturing. The country produces a significant amount of crude oil, as well as a large amount of plastic waste, which can be turned into polyester. Its abundant low-

skilled labour also makes it a good destination for the global plastic-to-polyester industry. A plastic-to-polyester roadmap should be developed.

Textile mills

1. **Access to cotton markets**: The old, inefficient and large textile mills may not be revivable. Newer, more efficient and smaller textile mills need to be encouraged. These mills will probably not require the vertically integrated farm-to-fabric structure of the 1980s, but will need access to the highest quality and competitive natural or man-made fibres, regardless of whether they are locally produced or imported. Market development, and open access to international markets for raw materials, should be a priority.

2. **Energy security**: The capital-intensive nature of modern textile mills implies that energy requirements are crucial to their survival. Natural gas currently has the most potential as a source of cheap energy for industrial use. However, most firms may not be directly on the current gas pipeline network. Extending the gas pipeline network to key industrial areas, or offering incentives for liquefied natural gas applications, should be a priority.

Garment industry

1. **Export focus**: The priority from the start must be to prime the garment industry for exports, and therefore to be competitive internationally. Although the domestic market seems large, it is still a fraction of the international garment industry. For context, Statisa Research estimated the global apparel industry to be worth \$1.68 trillion in 2015. The Nigerian apparel industry in 2015 was only worth \$9.3 billion, or 0.6% of the global industry. If sustained growth is the objective, then the focus must be on participation in international markets. Policy must be focused on productivity growth, efficiency and cost reduction.

2. **Human capital investment**: The garment industry may not require intensive tertiary education, but it does require simple skills that can easily be learned by unskilled workers. Training centres for various skills in the garment industry should be incentivised. These training centres do not need to be free, but they do need to exist and constantly train workers who are ready to perform the jobs required in the garment industry.

3. **Access to raw materials**: As with any industry, access to raw materials, and specifically the costs of these raw materials, is fundamental for success. The garment industry needs to be able to access the highest quality and cheapest raw materials, regardless of where they are produced. The current high import tariff for fabrics also needs to be revised, as it adds significant costs to the garment industry and makes it less competitive internationally.

Conclusion

In conclusion, the textiles and garment industry, from cotton to clothing, can be a key driver of the Nigerian economy, creating jobs and improving workers' standard of living. However, for this to occur each sub-sector in the industry should be given the opportunity to thrive independently of the other sub-sectors, especially the labour-intensive sections of the chain. Improved productivity and efficiency should be the key focus, as should production for exports, which has the potential to bring about significant long-term growth.