ECONOMIC POLICY DIALOGUE (EPD)
www.epdonline.org

COMMENTARY

Second-hand Clothes Trade Conflict Shows That Emperor Has No Clothes

By Pushpa Kumari
June 5, 2018

Trade conflicts are normal because nations may have their own national interests which at times are conflicting. But the trade conflict under discussion here is fairly abnormal. This is a trade conflict not between two normal trading partners, but America is at trade conflict with Rwanda. One nation having GDP 2224 times bigger (the US $19 trillion) than the other (Rwanda $8 billion). More important than the size of economy is the item of conflict - second hand clothes. These are dumped hand-me-down clothes sold for-profit by America to the poor African nation Rwanda. Basically, this conflict between two economically asymmetrical nations and that too over a trivial item signifies the bigger political economy of dominance and dependence.

Neither America is the only exporter of these worn clothes nor Rwanda is the only importer. Worn clothing is about $4 billion export industry globally. In 2016, the US had about 15% share ($639 million) of it. Some other countries were UK (11%), Germany (10%), Rep. of Korea (6%), China (5%), followed by Netherlands, Poland, Italy, Belgium and Canada (each having share of 3 to 4%). And on the import side, Pakistan had the highest share of it (6%), followed by India (5%), Malaysia (4%), Russia and Kenya (3% each) among many others. Though, exports and imports taken together to account the trade deficit in this worn clothing category: the largest trade deficits were recorded by Sub-Saharan Africa ($908.4 million), Latin America and the Caribbean ($369.1 million) and Southern Asia ($262.2 million) during 2016. Coming back to Rwanda, it is an eastern African nation with mere 0.47% share ($17.7 million) in the total used clothing imports in 2016, and also a part of Sub-Saharan Africa that holds the highest trade deficit in this product category. (Note: all the data used in this paragraph is taken from UN Comtrade and UN International Trade Statistics Yearbook 2016.)

The root cause of this conflict lies in a Joint Communiqué, the East African Community (EAC) issued in March 2016, expressing their intent to progressively phase out importation of used clothing as a means to support the region’s textile and apparel industry. In reaction to it, a US trade association – Secondary Materials and Recycled Textiles Association (SMART) – made a request for an out-of-cycle review (OCR) of the eligibility of the EAC states for the African Growth and Opportunity Act (AGOA) privileges citing loss of American jobs, and trade barriers as a breach of the AGOA provisions. The

AGOA is a part of Trade and Development Act of 2000, enacted during the Clinton presidency. It extends duty-free and quota-free access to over 6,400 products from the Sub-Saharan Africa (SSA) into the US market. The purpose of AGOA is to foster economic and political development in SSA by expanding access to U.S. trade and investment markets. However, after the AGOA review request, other EAC members – Kenya, Uganda and Tanzania – backed off at later stages, but Rwanda remained stuck to its original intention. That is why, it has become a contentious issue between the US and Rwanda.

How this conflict demonstrates that the emperor (US) has no clothes:

- **Unhumanitarian and Unethical**: actually, historically, East Africa had thriving clothing industrial sector during 1960s and until early 1980s. Cheap imports of second-hand clothes under the trade liberalization (as a part of economic reforms after the 1980s debt problems) have killed this industry. Not letting a chance to a poor nation to revitalize its lost industry, local economy, income and employment would be an utter unhumanitarian and unethical act on the part of a so-called champion of aid and development activities under the type of USAID and AGOA institutions.

- **Double standard**: it becomes a matter of pride if the richest nation on the earth says America first, American manufacturing jobs, America Great Again. But what if one of the poorest nation says it wants basic level of development and dignity…it becomes a subject to sort of sanctions.

- **Invisible Conditionality**: if Rwanda wants to be eligible for AGOA privilege, it has to meet the conditions of the US; even if Rwanda's actions actually are as per the intention of the AGOA, i.e., the long-term development of a poor country. Here, the conditionality is not related with the establishment of the democratic institutions etc. in that country. Instead, this is about the market access to the US exports. If Rwanda wants AGOA privilege, it has to give its market access for American products, no matter if it is at the cost of Rwanda's economic and social development. Similar conditionality was being tried on South Africa in 2015 when it attempted to ban US chicken imports because it was killing its poultry industry; as this time around on the East African Community nations for the US second-hand clothing imports. But when the nations reluctantly give in to the US threats they immediately become eligible to the AGOA benefits. In trade diplomacy AGOA may be a negotiation tool for trade deals, or in alternative to the mainstream philosophy AGOA may be a strategy to realise hegemony; but in simple economics terms, it will be AGOA conditionality (just like aid conditionality by IMF and World Bank, human rights conditionality for OECD humanitarian Aid).

- **Imbalance of power**: this is an imbalance of power that the US is trying to exploit because Rwanda is a poor and weak nation. Here Rwanda wants to develop its landlocked resource-lacking economy through low-skilled labor-intensive clothing industry. But the powerful partner says you will be punished if you do not accept my second-hand exports of the same products which you intend to develop. Moreover, this is nothing new in Rwanda wanting protection to its nascent industry from the imports as this is what the western and rich world had done in early phases of its development too. As famous economist Nicholas Kaldor noted "… policies of fostering domestic industries by judiciously chosen methods of import substitution – the replacement of imports of manufactures by domestic production – which were so successfully pursued by the countries of Western Europe, North America, Japan and other "developed" countries in the late nineteenth century and the present century...."

- **Economics vs. Power Economics**: trade theory put forward by Ricardo does not apply where power economics rules are applied. Ricardian theory of comparative advantage might have rightly predicted US importing textile and clothes because of its comparative advantage in producing high-tech products. But he might not have predicted US exports of second-hand clothes to the poor nations against their wish because this is what only power economics can predict. How poor African nations can challenge the hegemony of a superpower by denying its imports. The superpower certainly would not allow Rwanda like country to set such an example for other countries.

- **Might is Right**: who is right, obviously the mighty one. How this is true in the case of second-hand clothing (mighty) exporter. a) It has less to do with American industry and manufacturing jobs, because first, these clothes are anyway manufactured already and used/worn by the Americans, second, majority of these clothes are imported from the third country like, China, Malaysia, Philippines, Pakistan etc.; b) Americans would not wear these clothes; they have anyway discarded these clothes; c) these clothes are mostly collected from the drop offs at charities or donation bins in the parking lots. If these clothes are not exported, these will end up in the landfills as other discarded curbside stuff, like furniture, appliances, books, mattresses etc.; and d) charities which work for good cause earn profits by exporting these to the countries including third world with widespread poverty. To note, many of these charities might be involved in the noble work of these countries' development. How a nation can be wrong and punished for wanting its dignity back by not wearing the thrown away second-hand clothes -- because might is right!

This uncovers the truth about the development diplomacy of the rich and powerful world. They might sell the fancy institutions like USAID (American), DFID (British) ODA (OECD), CIDA (Canadian), and recently National Development and Cooperation Agency (Chinese). But their first priority has been their business interest instead of the development of the poor countries. Maybe this interest clash is one of the major factors that despite ‘so advertised’ decades’ efforts by myriads of (multilateral, regional, and national level) development organisations, development of numerous nations is yet a distant dream. Words might cover the truth but actions and results uncover the truth of development efforts. Superpowers may change – for instance, first Europeans and the UK, later the USA and now China too – with their own contemporary mighty ways and means; but legacy remains the same. Capitalism or communism are the same extensions of the old mercantilism, colonialism and imperialism. Nothing changes because this is a game of power.