KANO TEXTILE INDUSTRYAND THE GLOBALIZATION CRISIS

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Abstract

The primary concern of this paper is to look at how Africa Textile Manufacturers PLC (ATM) and Terytex Nigeria Limited (TNL) survived the extreme adversity of globalization. The point is to discuss how these manufacturing concerns make progress when faced with profound crisis and "drastic changes in the macro-economic policy environment including externally imposed policies". In this respect the focus is on industrial survival. The data were collected using both qualitative and quantitative methodologies. The former were collected through interviews while the latter were collected via structured questionnaire and documents. The main finding of the study is that the few textile concerns that managed to survive achieved that due to managerial competence and technical capability. The research recommended that government had to wake up to its responsibilities to provide infrastructure and make policies to sustain the textile industry.

Keywords: Globalization, textile, crisis, survival

Introduction

This study discussed the strategies pursued by African Textile Manufacturers (ATM) and Terytex Nigeria Limited (TNL), both Kano textile companies in dealing with globalization crisis faced by the companies. The globalization crisis had serious consequences for capacity utilization; production; employment strength; availability of funds; raw materials, and spare parts. The crisis precipitated by neo-liberal policies broke boarders for free flow of textile materials threatening the existence of textile companies (Muhammad, 2010).

Nigeria once had one of the finest and most vibrant textile industries in the world. At its peak in the 1980s, the industry was at that time a huge foreign exchange earner and is at its very worst in the third millennium. With the existing industrial collapse, idle investment, and mass unemployment and de-skilling, Nigeria is certainly not part of the race for the club of 20 leading economies in 10 years time, not to talk of being one of the 20 leading economies.

Nigerian textile companies are closing down like never before in history; the crisis is of disaster proportions. Its current level is capable of wiping out or destroying all textile industries left. While some had already closed down altogether others are epileptically operating. Workers are sent on compulsory leave to face great uncertainty. As technologically advanced countries achieved unprecedented rapid textile development, technologically less developed states were faced with overwhelming problems in the absence of industrialization (Andrea and Beckman, 1999).

The economic measures pushed by an advanced state of technology became more intense; curtailing production, cutting jobs, increasing the prices of raw materials (cotton and spare parts) diesels, petrol and black oil, introducing unfavourable financial terms, have all threatened the survival of the textile industries. Despite huge potential capacity of cotton production in Nigeria, it has today become elusive for sometime now (Andrea and Beckman, 1987). These companies battled with shortages of foreign exchange to buy these much needed raw materials (cotton, spare parts and chemicals).

Globalization policies precipitated by neo-liberal policies threaten the whole range of supplies for textiles, including chemicals, dyes, machinery, spare parts and other accessories (Andrea and Beckman, 1987); the import bill increased with the fall in the value of local currency making it difficult to import essential materials needed for the development and competitive strength of the local industry. Government support to neo-liberal policies gave room for an unrestricted influx of textile materials into the country thereby killing indigenous textile factories. Reduction in the value of local currency does not decrease reliance on imported goods to encourage export. Unfavourable import duties and high interest rates sapped the scarce resources of the companies under study.

Globalization and Nigerian textile industry

The current crisis was precipitated by the Structural Adjustment Programme and, more emphatically, by 1997 when Nigeria became signatory to the World Trade Organisation (WTO) and fully liberalised textile trade, which had devastated the sector. The industry under the WTO rule is in danger of becoming extinct because of outside competition.

Closures and redundancies have been driven by operational difficulties (high operating cost), arising from energy cost. These are among the multitude of problems that affected the textile sector, these problems have led to mass closure of production units, where shortage of electricity is considered to be one of the prime factors along with the sheer lack of political commitment to industrialization by Nigerian politicians. Faking of company labels and massive smuggling which led to the loss of 80 per cent of local market to imported textile fabrics, local textile has a market share of about 20 per cent only. High cost of production which is driving many manufacturers out of business is likely to get even higher. This is because the projected inflation figure of 8.2% for 2009 had hit 16.0% by February 2010 as a result of the massive Naira devaluation. The already stressed manufacturing sector is going to be further hard hit.

Among many factors affecting the Nigerian textile industries are the problems associated with the nature and structure of the Nigerian economy. These include structural disequilibrium, high level of inflation, poor wages, unstable and unfavourable exchange rate, instability in the value of the naira and others. There are also the problems associated with smuggling and the porosity of our borders, which makes imported prints cheaper than domestic ones. In 2005, smuggled textile materials worth over N4 billion were burnt by a special inter-ministerial committee headed by the then Minister of the Federal Capital Territory, Mallam Nasir el-Rufai. Government is losing about $400 million to smuggling annually. 85 per cent of the $1.4 billion worth of textile materials that flood the nation annually is smuggled (www.thenationonlineng.net). Furthermore, there is the problem that has to do with the high incidence of poverty in Nigeria whereby most Nigerians are barely managing to survive. This has also meant lower demand for domestic prints. Again, there is the problem with the preference of the average Nigerian for imported fabrics, which has also meant low level of effective demand for domestic textile products.

Another major problem is the Low Pour Fuel Oil (LPFO), used to fire machines boilers. LPFO is not available in abundance in Nigeria; a lot of them have been contracted out by Pipeline and Products Marketing Company (PPMC) to foreigners. Gas is more or less contracted out, which could have served as an alternative to fuel; some of the textile companies do not even have facilities for gas. Most of their equipment is no longer modern. Cotton is not adequately available. Cotton produced locally is at the lowest production levels since the mid 1980's, and the qualities are not as good as it used to be. Companies have to start importing more from Cote'Ivoire and Benin Republic and other countries. Most of the Asian countries; instead of resorting to imports for their raw material supplies, opted for investing heavily in backward integration projects just like their counterparts in developed countries. This gradually strengthened the textile base in countries like China, India and Bangladesh.

Nigerian governments over the years seemed to have grossly under estimated the enormity of the power problem and the multiple effects on the industrial sector. In 1999, Chief Bola Ige thought that he could fix things in six months. Yet for eight years, former President Obasanjo battled relentlessly with the power problem and spent over N300 billion without much success. The present administration of Yar'adua/Jonathan has committed close to N600 billion since its inception and has repeatedly threatened to declare a state of emergency in the power sector. Yet, no respite is insight. Government has declared that 6,000 megawatts of electricity would be vigorously pursued. The ministry of power has been able to generate 3,000 megawatts to tackle enormous challenges in the industry. If the country industrial could sector enjoy 12 hours of unbroken electricity, just 12 hours, the nation manufacturing industries would pick up again. Consequently, in 2004, 2,644 jobs were lost and by 2005 the figure rose to 4,990 - and by mid-2006, a further 3,496 workers were thrown into unemployment. In 2007 alone, about 5,515 textile workers lost their jobs following the closure of two major factories, United Nigeria Textiles Plc Kaduna and Atlantic Textiles located in Lagos (www.thenationonlineng.net).

Our power sector can hardly generate and distribute 4,000 megawatts for an economy and population that requires 40,000 to 50,000 megawatts to survive. All stakeholders in the manufacturing sector have been hard hit. Between January-June 2007, the estimated average power outage per day was 62.2% (www.compassnewspaper.com). The implication of these endemic power outages is that manufacturing companies have to divert a substantial part of their investible funds to the purchase of generating sets with its attendant effects on the costs of doing business if they want to stay in business. Manufacturing in Nigeria became the survival of the fittest as huge overheads began to build up as a result of the search for alternative power supplies. Nigeria's quest for industrial boom must remain wishful thinking as long as the power supply problem persists.

In a publication by the Ministry of Economic Matters tagged 'Obasanjo's Economic Direction 1999 – 2003', the former President said the Nigerian economy was generally riddled with myriads of problems and had virtually collapsed. In addition to the inherent fundamental structural defects which persisted, the economy was burdened by mismanagement, which brought additional problems. These included energy crises manifested in the scarcity of petroleum products and an epileptic and erratic power supply; high fiscal deficits, which threw macro-economic fundamentals out of order; and a near-total collapse of infrastructure and services. Low output, high unemployment and a crushing external debt overhang prevailed (Obasanjo's Economic Direction, 2000).

In 1998, the Nigeria Textile Manufacturers' Association (NTMA) disclosed that "the textile industry was losing a whopping N127.5 billion yearly, owing to the deteriorating infrastructure" (www.businesstimesafrica.net). In addition, companies operating have also been subjected to heavy overhead charges and production costs, and the intractable issue of multiple levies by government agencies. From all indications, the evidence presented in the foregoing discussion is nothing but a reflection of the fact that the textile mills under focus are operating in a difficult and unfavourable economic climate. In this study, it is clear that the nature of the Nigerian economy has a negative impact on production, staff strength, installed efficiency and capacity-utilization.

The Nigerian textile industry is presently on the verge of collapse. A one-time vibrant industry and the largest employer of labour has now become a shadow of itself. The total staff strength of the industry that stood at 200,000 in 1985 has dwindled to 24,000 in 2008. The number of textile companies that peaked at 175 in 1980 was reduced to 24 by 2008 and 25 in 2010 (Muhammad, 2010).

Globalization crisis: Coping strategies at ATM and TNL

It took China 11 years to move from a poor economy to a major world player even in the textile section of the manufacturing industry. China is today perhaps competing with United States of America. If China can make it, it is possible for Nigeria's ailing industries to survive amidst globalization challenges.

ATM is one of the many Nigerian textile companies forced to source for raw material (cotton) locally, referred to as backward integration, sourced partly its cotton from its Funtua cotton farm and through direct purchase, and the company bought cotton at early harvest when prices are moderate. Furthermore, ATM makes use of synthetic yarn. The company fabricated technologically less complex spare parts and formulated simple chemicals for use. ATM also patronizes Asian countries for cheaper input and spare parts. Water is sourced through the digging of personal boreholes. Purchase of PMS (petrol) and AGO (engine oil) is made in bulk to reduced cost (Muhammad, 2010).

The company rationalized its production structures and use of input to overcome the constraints of raw material and foreign exchange shortages. Rationalization involved the retrenchment of workers, increasing the workload of labourers. It also reduced the length of the working day and number of shifts to correspond to the availability of raw materials, in-house fabrication of spare parts, re-tuning of machinery and rehabilitation of old equipment. In addition, a number of innovative strategies were introduced in the areas of marketing, procurement, and finance. These entailed discounts on bulk purchases, intensive advertising, use of multiple bank accounts for foreign exchange transactions, and participation in the parallel foreign exchange market. Changes were also introduced in management systems. The company recruits overseas managers with developing country experience; and family members with university education as managers. ATM was able to remain afloat basically because of the managerial prowess employed, unlike what was obtained in the moribund counterparts run by Nigerians.

The utilization of resources acquired from financial institutions with high interest rates are handled prudently. To counter shortage of funds, ATM uses a trade-by-barter system where possible to exchange products for materials needed. Customers are also asked to make advanced deposit. The company embarks on an aggressive marketing drive and increased quality to increase sales. The introduction of new designs has given the customers the leeway to choose.

Terytex Nigeria Limited is not as complex and as capital intensive as African Textile Manufacturers. TNL is a medium scale company producing towels, bed sheets, shawls, napkins, hank yarn, and cotton yarns. The company is not as threatened as ATM by unrestricted liberalization because not much importation of towels and bed sheets is made as in ATM based goods. It is only recently that foreign based companies started to have interest in TNL biased products; the threat to the company's existence is not as severe as with ATM. To counter problems related to production, the company imported modern machines to improve the quality of its product and design. The company maintained a good market network within West African states; the crisis of high cost of production is reduced by maximum usage of resources available. The company does not record profit but only breaks even; huge bank interest is negotiated to a lower rate.

TNL had to embark on right sizing of its labour strength by engaging its workers to work extra hours. Workers that voluntarily resign are no more replaced. Chemicals for use are sourced from India through concession using Indians working in the factory, while water is sourced from boreholes and water tanks according to Comrade Aminu Suleiman, the National Senior Assistant Secretary General of National Union of Textile Garment and Tailoring Workers of Nigeria (Suleiman, 2007).

TNL enter into a factoring arrangement to ensure against probable losses due to bad debts by enhancing internal collection process. The company identifies potential cost reduction strategies; these include elimination of waste through prompt analysis of operating expenses and identifying the right products that match the consumer's preferences to gain sizeable profit margins. Restructuring and a rationalisation programme that aimed at eliminating those activities and processes which constituted a drain on the resources of the company should be included. So far, the restructuring and rationalisation have yielded good results such as the replacement of old looms, yarn export drive, and adoption of waiver of technical fee until the situation improves. As a result, the company is saving. The new strategy is expected to eliminate activities and processes that have less contribution to the growth of the profitability of the company in addition to an aggressive raw materials procurement drive to improve capacity utilisation.

A descendant of the first Kano group of indigenous manufacturers who is in manufacturing for more than thirty years, in an interview with the researcher, claimed that most of the textile companies still existing in Kano (ATM, Engel Spinning, etc) are Lebanese-owned companies surviving the scorching effect of globalization through scrupulous means and exhibiting corrupt tendencies (Nabegu, 2008). The Federal Government Export Expansion Grant (EEG) meant to promote local products exports gave 40% free grant for each export made was scrupulously used by companies in the class of ATM to earn hard currency without sometimes actually exporting. Most of the exports are imaginary and this gave ATM and its like the ability to buy cotton at a price higher than that of other companies that collapsed or epileptically operated like GTM. Nabegu further asserted that ATM borrowed substantial amount from abroad at much lower interest rate, even though it is illegal for a

Nigerian business to borrow from abroad (Nabegu, 2008).

In the same instance the state also promoted manufacturing through Manufacturing In_Bond. This gave ATM the opportunity to import chemicals and accessories duty free; these same chemicals imported are sold to earn money. Alhaji Nabegu further stressed that ATM is not paying the state service utility (Water Board and Electricity Board) dues in full. The company pays less than half and gave out a meager percentage to the staff of the utility service providers; steady power is tapped directly from the national grid cables to its 500 KVA power transformers mounted in front of the company's premises while other companies found themselves enmeshed in a power supply problems. These are among the several strategies taken by ATM despite the blistering consequences of globalization.

The strength exhibited by companies that survived globalization can be understood in terms of the privileged access to scarce foreign exchange. It has been the policy of the Nigerian state to facilitate such access for companies which have exported their goods.

Conclusion

Despite the unfavourable economic woes posed by globalization, companies like ATM and TNL survived showing encouraging signs of adaptability against all the odds. The pressure from IMF and World Bank toward economic reform in countries that are technologically less developed deteriorated the conditions of the textile companies. These opened up a new traumatic phase in Nigeria's experience in textile production.

The relationship between textile production in Nigeria and globalization had moved into a new phase, a phase when textile production found it difficult to sustain itself with the massive influx of foreign textile materials. Nigeria was losing labour in the process while there was also a decline of market share by the domestic industry.

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