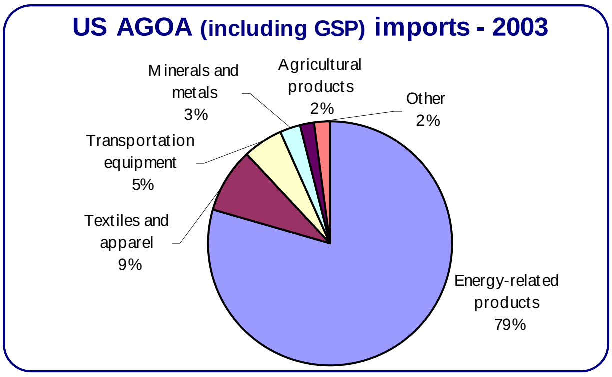
AGOA update: Why AGOA III is vital for Africa

May 2004

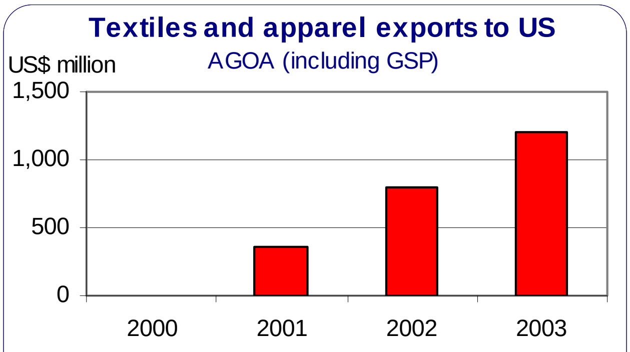
Textile sector a major AGOA beneficiary

The products that are allowed for export to the United States (US) under AGOA are diverse. However, energy related products have dominated AGOA exports to the US since inception. In 2003 energy related product exports accounted for nearly 80% of total AGOA (including GSP) exports by qualifying sub-Saharan African countries. The second most traded product category under AGOA is textiles and apparel which accounted for 8.5% of total AGOA (including GSP) exports in 2003.



While textile exports seem relatively low in relation to the exports of energy related products their impact on the development of AGOA beneficiary countries has been significant.

In the case of Lesotho AGOA has resulted in a sharp increase in total exports due to strong growth in exports to the US. Exports to the US have grown from around US$140 million in 2000 (the year preceding AGOA) to almost US$400 million in 2003. Jobs in the textile sector have risen to 50,000 from 20,000 in 2001 making the textile sector the largest employer in the country for the first time since independence in 1966.



Source: US International Trade Commision

Likewise Kenya's textile sector employment has added more than 150,000 new jobs since 2001 and textile exports have tripled from US$45 million in 2001 to US$150 million in 2003, with total exports to the US rising from US$129 million to US$249 million in 2003. Total investments in AGOA-related infrastructure increased by 23% from US$16 million in 2001 to US$21 million in 2003.

Other countries have had similar experiences. This is evident in total textile and apparel exports to the US of all beneficiary countries under AGOA (including GSP) which have increased markedly since 2001.

AGOA textile provisions expire in September

The special textile provisions of AGOA have undoubtedly been responsible for the remarkable growth in textile exports to the US from sub-Saharan Africa. Countries that have been granted lesser-developed status (all AGOA beneficiaries except for South Africa, Gabon, Mauritius and the Seychelles) are allowed to source fabric and yarn from anywhere in the world. This provides nations which do not have the capacity to produce raw materials or fabric, the opportunity to take advantage of AGOA through the manufacturing of apparel. This provision has dramatically altered the fate of some sub-Saharan African countries as discussed above.

The special provisions for lesser-developed countries are set to expire on September 30, 2004. Apart from extending the whole programme to 2015 (original expiry is set for 2008) AGOA III also proposes the extension of the benefits for lesser-developed countries to 2008. While AGOA III was introduced in the US Senate and House of Representatives in November 2003 it has not yet been signed into law. With September approaching stakeholders are getting nervous, and lobbying in the US and Africa for speedy action is intensifying.

The fact of the matter is that most countries that have lesser-developed country status continue to produce apparel from third-country fabric and yarn. Without the extension proposed by AGOA III the textile industries in these countries will be subjected to less-favourable provisions and increased global competition. Already it is rumoured that orders from some countries that have lesser-developed status are declining in anticipation of AGOA III not being passed in time.

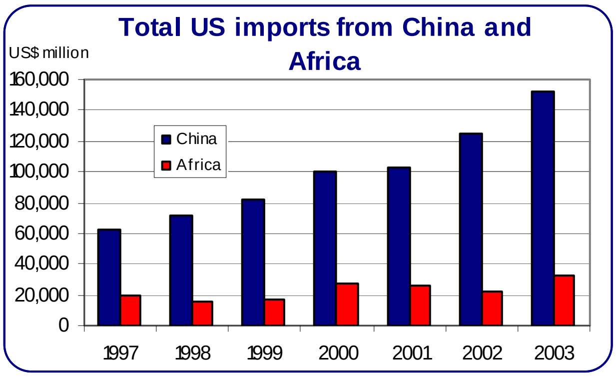
China poses a threat to developed and developing country textile sectors

For the textile sectors in sub-Saharan Africa to survive extension of the lesser-developed country status beyond September 2004 is crucial. But even if extension is granted African textile sectors (as is the case in other developing countries) face a serious threat from China's textile industry, as global textile quotas are set to expire at the end of the year in line with the World Trade Organisation's (WTO) Agreement on Textiles and Clothing (ATC).

Before the ATC took effect in 1995, a large portion of textiles and clothing exports from developing countries to the industrial world was subject to quotas under a special regime outside normal GATT rules. Under ATC, WTO members have committed themselves to remove the quotas in stages with full removal by 1 January 2005 by integrating the sector fully into GATT rules.

While quotas have been relaxed in stages since ATC took effect in 1995, it is argued that the agreement is flawed and that little integration has taken place. One reason proposed for the slow pace of integration is that the decision of what to integrate has been left to the countries themselves. As a result the products chosen over the past 10 years for integration were identified as those having the least impact on the domestic industry. In reality this means that the most sensitive quota products from a global perspective, such as T-shirts, men's shirts, ladies' blouses, jeans etc. will only be integrated on 31 December 2004 (the last day of the ATC).

Many fear that China will dominate the global textile industry in the new dispensation. While China's dominance may be overstated it is not without foundation. Since China's accession to the WTO in 2001 its textile exports have expanded markedly. The volume of textile exports from China to the US alone rose by 125% in 2002 (the first full year of China's WTO membership) while the value of textile exports rose by nearly 34% over the same period. As a result China became the leading supplier of textiles to the US in volume terms in 2002 after ranking third in 2001.



While commentators saw the strong growth in US imports from China as a once-off occurrence brought about by China's accession to the WTO, imports from China continued to grow after 2002. As a result, China became the second largest source of US imports (after Canada) in 2003 from being the fourth largest in 2001.

Calls for the extension of ATC quotas

China has proven that it has the capacity to increase exports in world markets in a relatively short space of time. This reality, in light of the looming quota integration, is unsettling textile manufacturers in both the developed and developing world. For the developed world it means that their textile industries will have to compete with that of China and other developing countries (especially India), who have the benefit of lower labour costs. In the case of developing countries the volume, low cost structure and size of China's textile industry threatens their survival.

It is thus ironic that some developing countries that have long been pushing for the global lifting of quotas have joined the developed world (including the US) in calling for the extension of ATC until at least 2008. However, this seems unlikely.

For developing countries in sub-Saharan Africa (especially those granted lesser-developed country status) the extension of the textile provisions under AGOA III to 2008 will, to a certain extent, protect them as they will still enjoy duty-free access to US markets.

AGOA III is very significant for Africa. Fast action on AGOA III is therefore needed for the good that AGOA has already done to continue. Without AGOA III the benefits many countries have experienced in the form of increased investment, job creation and rising exports may disappear.

The overall extension of AGOA to 2015 as proposed under AGOA III will also give qualifying countries the opportunity to build strong textile and other industries which will be better placed to withstand global competitive forces after expiry. For those who have been slow in taking advantage of AGOA's concessions, it will provide a second chance.

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