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U.S.-AFRICA TRADE

Options for Congressional Consideration to Improve Textile and Apparel Sector Competitiveness under the African Growth and Opportunity Act



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Highlights of [GAO-09-916](#), a report to congressional committees

Why GAO Did This Study

According to U.S. government officials, sub-Saharan Africa’s (SSA) textile and apparel industry has not achieved the growth anticipated under the African Growth and Opportunity Act (AGOA). Despite the tariff reductions under AGOA, after an initial surge, U.S. imports of these products from beneficiary countries have declined in recent years (see figure). In view of this outcome, the 2008 Andean Trade Preference Extension legislation required GAO to prepare a report identifying changes to U.S. trade preference programs “to provide incentives to increase investment and other measures necessary to improve the competitiveness of [SSA] beneficiary countries in the production of yarns, fabric, and other textile and apparel inputs.”

This report is intended to provide Congress a range of options put forward by experts for (1) possible changes to AGOA or other U.S. trade preference programs and (2) other measures the U.S. government could take to help increase investment in and improve competitiveness of SSA textile and apparel inputs production.

To address these objectives, GAO considered the findings of a study prepared by the U.S. International Trade Commission that identified products that could be produced competitively in AGOA beneficiary countries. GAO also convened a panel of experts and key informants to discuss their views and prioritize the options that GAO identified.

[View GAO-09-916 or key components.](#)
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U.S.-AFRICA TRADE

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What GAO Found

Many of the options discussed by the panel of experts GAO convened address the need to consider the trade-offs inherent in trade preference programs. Furthermore, experts emphasized that the link between trade policy and economic development complicates potential policy responses. While AGOA has generous benefits for textile and apparel, many SSA countries face infrastructure and development challenges that must be addressed before they can fully take advantage of these benefits.

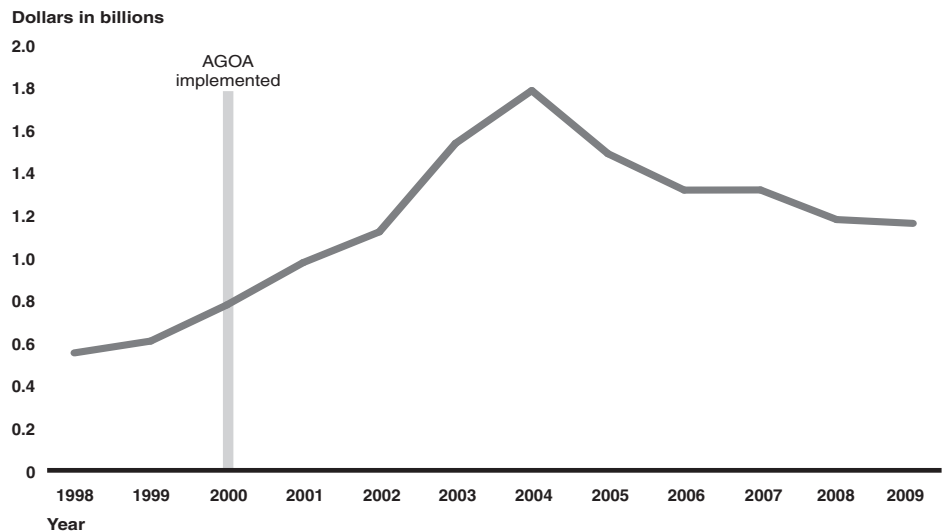
Recognizing this interplay, GAO’s panel of experts and key informants gave greatest priority to options they believed provide long-term investors with predictability of benefits and encourage regional commitments relative to other developing countries. Such options included:

- Extending the duration of the third-country fabric provision for least developed AGOA countries beyond 2012, and
- Extending the duration of overall AGOA benefits beyond 2015.

The panel similarly gave greatest priority to the options for other development measures that focused on supporting investment through trade capacity building. Many experts considered trade capacity building to be a key component of improving the competitiveness of African textile and apparel inputs production, and in developing the physical and market infrastructure needed for a vibrant export sector. Such options included:

- Funding regional trade hubs and focusing on market promotion and business linkages, and
- Aligning U.S. trade capacity building and development assistance with AGOA objectives.

U.S. Imports of Textile and Apparel from SSA, 1998 through 2009



Source: GAO analysis of official U.S. trade statistics.

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Abbreviations

AGOA	African Growth and Opportunity Act
Ex-Im	Export-Import Bank
ITC	U.S. International Trade Commission
LDC	lesser-developed countries
MCC	Millennium Challenge Corporation
MFA	Multi-Fiber Arrangement
OPIC	Overseas Private Investment Corporation
USAID	U.S. Agency for International Development
USTR	Office of the U.S. Trade Representative
SSA	sub-Saharan Africa
TCB	trade capacity building
TDA	U.S. Trade and Development Agency
WTO	World Trade Organization

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United States Government Accountability Office
Washington, DC 20548

August 12, 2009

The Honorable Max Baucus
Chairman
The Honorable Charles Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable Charles B. Rangel
Chairman
The Honorable Dave Camp
Ranking Member
Committee on Ways and Means
House of Representatives

The African Growth and Opportunity Act (AGOA), signed into law in 2000, is a U.S. trade preference program that is intended to stimulate economic growth and help integrate Africa into the global economy.¹ AGOA allows eligible² sub-Saharan African (SSA) countries to export qualifying goods to the United States without import duties. Benefiting from these duty-free provisions, U.S. textile and apparel imports from SSA countries are currently 52-percent higher than before AGOA implementation in 2000 and account for a significant proportion of non-oil imports from AGOA countries. However, despite the tariff advantage, AGOA textile and apparel imports still represent only 1.3 percent of total U.S. imports of these goods. Overall, the African textile and apparel industry has not achieved the growth in production or trade anticipated by U.S. supporters and AGOA beneficiaries. Production of AGOA textile inputs (such as yarn, fabric, zippers, and trim) was supposed to deepen the African industrial base and contribute to a more competitive African apparel industry.

¹Trade preference programs offer unilateral tariff reductions to eligible developing countries for the import of specified products into the United States.

²AGOA authorizes the President to designate countries as eligible to receive AGOA program benefits if they are determined to have established, or are making continual progress toward establishing, the following: market-based economies; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of intellectual property; efforts to combat corruption; policies to reduce poverty and increase availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices.

However, U.S. apparel imports from AGOA countries have declined since 2005. In addition, U.S. yarn and fabric imports from SSA have declined from about \$24.2 million in 1998 to \$15.6 million in 2008. Over the past few years, Congress has sought ways to enhance AGOA benefits to improve the competitiveness of SSA textile and apparel inputs production.

This report responds to a mandate in the 2008 Andean Trade Preference Extension legislation requiring us to submit a report with recommendations for changes to U.S. trade preference programs “to provide incentives to increase investment and other measures necessary to improve the competitiveness of beneficiary sub-Saharan African countries in the production of yarns, fabrics, and other textile and apparel inputs...”³ We were required to base the report, in part, on the findings of a study prepared by the U.S. International Trade Commission (ITC), under the same mandate, to “identify yarns, fabrics, and other textile and apparel inputs that through new or increased investment or other measures can be produced competitively in beneficiary sub-Saharan African countries.” At the request of staff from the House Committee on Ways and Means, we expanded our study objectives to include a review of measures that are beyond the scope of traditional U.S. trade preference legislation, such as incentives for investment and trade capacity building. The mandate also required us to prepare a report 90 days after the ITC study was issued. Thus, in this report, we provide information on options experts have put forward that Congress may wish to consider for (1) possible changes to AGOA or other U.S. trade preference programs and (2) other measures the U.S. government could take to help increase investment in and improve competitiveness of textile and apparel inputs production in SSA. Some of the options presented would require legislative action while others could be implemented administratively.

To prepare this report, we reviewed ITC reports on SSA, including hearing materials and the ITC study⁴ conducted under the same mandate as our review, and reviewed literature on issues related to the textile and apparel industry and investment in SSA countries. We also interviewed

³Pub.L. 110-436, sec. 3(c)(2).

⁴ITC, *Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production*, ITC Pub. 4078 (May 2009). See also, ITC, *Sub-Saharan Africa: Effects of Infrastructure Conditions on Export Competitiveness, Third Annual Report*, Pub. 4071 (April 2009); and ITC, *Sub-Saharan Africa: Factors Affecting Trade Patterns of Selected Industries, Second Annual Report*, Pub. 3989 (April 2008).

knowledgeable U.S. agency officials, researchers, and consultants involved in work related to U.S.-Africa trade, private-sector representatives of the U.S. and African textile industries and the U.S. retail and apparel import industries, and officials from 12 African embassies in Washington, D.C. Through these sources, we identified numerous suggestions for how the U.S. government could support competitiveness in the African textile and apparel industry. On June 2, 2009, we convened a panel of experts and key informants that considered the industry challenges and potentially competitive products described in the ITC report. We asked the panel to consider ways to improve the competitiveness of the African textile and apparel inputs industry and to rank these options as higher or lower priorities for Congress to consider. As discussed with congressional staff, to meet the 90-day deadline provided by the mandate, the options presented in this report are based on the opinions of experts and key informants and should not be interpreted as GAO recommendations. GAO did not evaluate the potential impacts or the economic costs and benefits of the options discussed. We conducted our work from January through July 2009 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product. (See app. I for a complete description of our scope and methodology.)

Background

AGOA, signed into law on May 18, 2000, was designed to promote free markets, stimulate economic growth in SSA, and facilitate SSA's integration into the global economy. According to the Office of the U.S. Trade Representative (USTR), AGOA provides duty-free access to U.S. markets for more than 6,000 dutiable items in the U.S. import tariff schedules.⁵ All 48 countries in SSA are potentially eligible for AGOA, but

⁵In prior reports on U.S. trade preference programs, see GAO, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, [GAO-08-443](#) (Washington, D.C.: Mar. 7, 2008); and *International Trade: An Overview of Use of U.S. Trade Preference Programs by Beneficiaries and U.S. Administrative Reviews*, [GAO-07-1209](#) (Washington, D.C.: Sept. 27, 2007), we stated that AGOA provided benefits on about 5,200 dutiable products. The discrepancy with the figure cited by USTR may be due to differences in the methodology used to determine dutiable items provided duty-free access. GAO's calculations are based on a methodology described in [GAO-08-443](#), appendix II. There have also been some changes in the number of dutiable lines since those reports were released.

some have not met the eligibility criteria, and the program currently has only 40 beneficiaries. See figure 1. Most U.S. imports of textiles and apparel from SSA countries come from no more than 10 countries (Ethiopia, Kenya, Lesotho, Madagascar, Mauritius, Nigeria, South Africa, Swaziland, Tanzania, and Zambia). Together, these countries account for 97 percent of U.S. textile and apparel imports from SSA.

A key feature of AGOA is its provisions for duty-free preferences for specific textile and apparel goods subject to rules of origin limitations.⁶ Eligibility for textiles and apparel benefits is based on conditions more selective than the general AGOA conditions and is only available to select AGOA countries.⁷ AGOA provides duty-free and quota-free treatment for eligible apparel articles made in qualifying SSA countries through 2015. Qualifying articles include:

- Apparel made of U.S. yarns and fabrics;
- Apparel made of SSA (regional) yarns and fabrics until 2015, subject to a cap;
- Apparel made in designated SSA lesser-developed countries (LDC)⁸ of third-country yarns and fabrics originating anywhere in the world, until 2012, subject to a cap—commonly referred to as the “third-country fabric provision;”⁹
- Apparel made of yarns and fabrics not produced in commercial quantities in the United States; and

⁶Rules of origin are used to determine the country of origin of a product for purposes of international trade. Rules of origin provide the basis for Customs officials to make determinations about which goods are entitled to preferential tariff treatment under a trade preference program such as AGOA.

⁷Countries must first establish effective visa systems to prevent illegal transshipment and use of counterfeit documentation, and implement required enforcement and verification procedures.

⁸Under AGOA, LDCs are defined as SSA countries with a per capita gross national product under \$1,500 in 1998. South Africa and Seychelles are not classified as LDCs and thus are not eligible for the third-country fabric provision.

⁹For a detailed description of the third-country fabric provision and an evaluation of trade preference programs in general, see [GAO-08-443](#).

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- Textile or textile articles originating entirely in one or more lesser-developed beneficiary SSA countries; certain cashmere and merino wool sweaters; and eligible hand-loomed, handmade, or folklore articles, and ethnic printed fabrics.

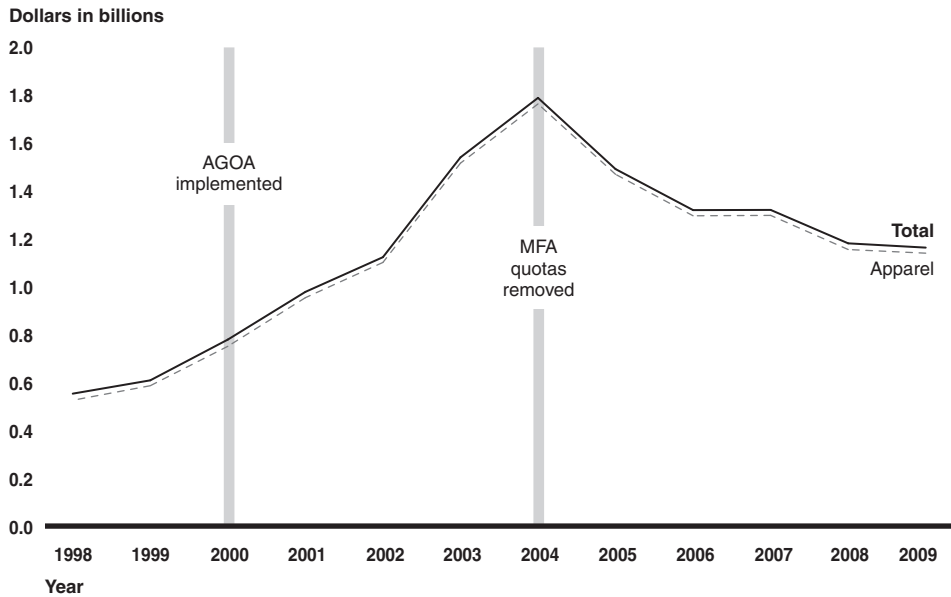
Notes: Mauritania was declared AGOA-eligible on June 28, 2007, but has lost its eligibility effective January 1, 2009.

South Africa and Seychelles are not classified as LDCs and thus are not eligible for the “third-country fabric” provision.

Industrialization in many developed countries was initiated in the textiles and apparel sectors, and some developing countries have relied on these sectors to significantly increase and diversify exports, with positive effects on incomes, employment, and poverty levels. Proponents of AGOA anticipated that by providing generous preferences for imports of textiles and apparel from AGOA-eligible countries, AGOA beneficiaries would be able to leverage these advantages to replicate this industrialization process. After AGOA was implemented, there was an initial surge of U.S. textile and apparel imports from beneficiary countries. U.S. imports of SSA products from SSA increased from \$776 million in 2000 to about \$1.8 billion in 2004. However, after 2004, when quotas under the Multi-Fiber Arrangement (MFA)¹⁰ were removed, U.S. imports of these products from SSA declined by about one-third, to \$1.2 billion in 2008. See figure 2.

¹⁰The MFA, in place since 1974, provided a framework under which developed countries including the United States, the European Union, and Canada imposed quotas on imports of yarn, textiles, and apparel from developing countries. On January 1, 2005, restrictions on the fourth and final set of textile and clothing products regulated by the Agreement on Textiles and Clothing, which succeeded the MFA, were removed. Thereafter, a significant portion of the textile and apparel trade shifted from preferential sources (such as AGOA countries) toward suppliers that had previously been constrained by the MFA, notably China.

Figure 2: U.S. Imports of Textiles and Apparel from SSA, 1998 through 2009

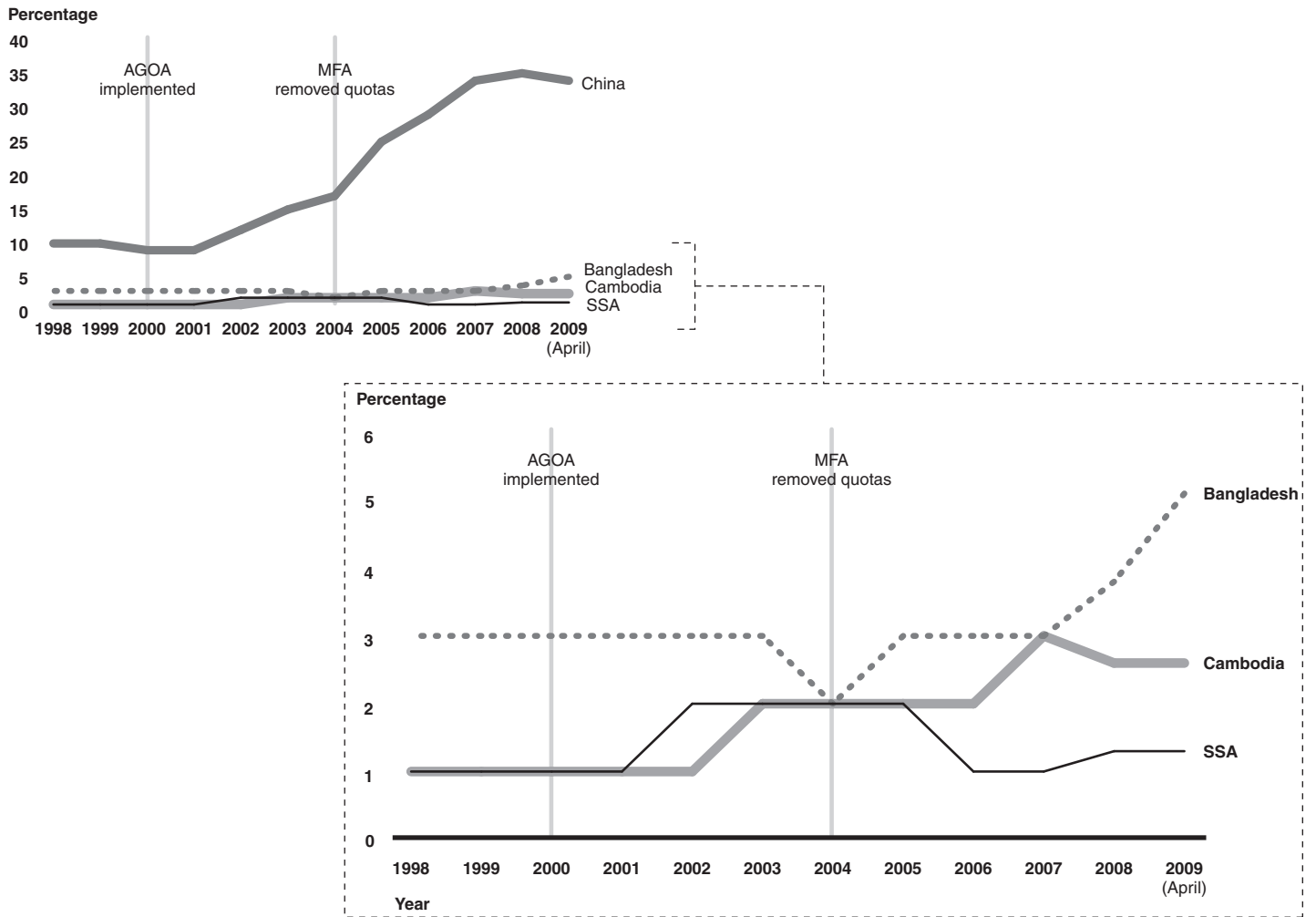


Source: GAO analysis of official U.S. trade statistics.

Note: 2009 values shown are year to date, April 2009, with data projected to the end of the year.

Although AGOA provides some of the most generous preferences under any U.S. trade program, as figure 3 shows, in 2008, SSA countries accounted for 1.3 percent of total U.S. textile and apparel imports. In contrast, China accounted for 35 percent of U.S. imports of textiles and apparel, while Bangladesh and Cambodia accounted for 3.8 and 2.6 percent, respectively. In 2008, U.S. textile and apparel imports from China were 28 times the value of those from SSA countries. In that same year, U.S. textile and apparel imports from Bangladesh were 3 times those from all SSA countries combined.

Figure 3: Trends in Market Shares of Selected Textile and Apparel Exporters to the United States, 1988 to April 2009



Source: GAO analysis of official U.S. trade statistics.

Note: 2009 values shown are year to date, April 2009, with data projected to the end of the year.

Moreover, U.S. imports of textile and apparel products from SSA are predominantly apparel. As illustrated in table 1, apparel constitutes 98 percent of this type of U.S. import from AGOA beneficiaries, while yarn, fabrics, and made-ups¹¹ represent less than 2 percent of all U.S. textile and

¹¹“Made-ups” consist of finished textile products such as pillow cases, sheets, bedspreads and quilts, blankets, towels, floor coverings, etc.

apparel imports from SSA. By contrast, U.S. imports of these products from all countries make up a larger part—23 percent—of textile and apparel trade. The modest share of U.S. imports of textile and apparel inputs, including yarn and fabrics, from SSA countries reflects not only limited production of these inputs in the region, but also the fact that an integrated apparel and textile sector with potential to serve as an engine of economic development is not available.

Table 1: U.S. Textile and Apparel Imports by Type, 2008

Dollars in millions

	U.S. imports from SSA, 2008		Total U.S. imports, 2008	
	Value	Percent of total	Value	Percent of total
Apparel	\$1,151	98	\$71,568	77
Fabrics	13	1	5,120	5
Yarn	2	0	1,322	1
Made-ups	10	1	15,177	16
Total	\$1,177	100	\$93,187	100

Source: GAO analysis of official U.S. trade statistics.

Several studies and experts have pointed out that current trends in U.S. textile and apparel markets are less conducive to African sourcing because low-cost Asian producers (China, India, and Bangladesh) with relatively modern production facilities have developed a competitive advantage, challenging SSA textile and apparel in the United States and elsewhere. Also, the U.S. market has experienced significant consolidation in the retail sector resulting in lean retailing methods—the combination of low inventories and frequent restocking. Lean retailing¹² requires retailers to closely track their sales using electronic data to facilitate fast communication with suppliers. From the standpoint of suppliers, the method demands great flexibility, as they must be able to adjust output, and ship and deliver products quickly. Less flexible suppliers that can only compete on selling cost and not on timeliness are at a disadvantage. As a result, aspects of the lean retailing method do not favor African suppliers

¹²Consumer tastes for apparel and textiles are volatile, and retailers face the prospect of having to liquidate vast inventories of unpopular clothing at the end of a selling season or the prospect of running short of suddenly popular styles. “Lean retailing” offers a partial solution to these concerns because with low inventories, stores will not be stuck with large amounts of unsold goods if demand collapses, and with frequent restocking, stores will not run short of popular items.

that have less advanced production technology that limits their flexibility to meet changing demands.

Duty-free access for textile and apparel imports from SSA countries under AGOA reduces the competitive edge of low-cost Asian producers. However, duty-free access alone may not overcome the advantages Asian producers enjoy due to long-standing, established trade channels. Africa's lack of resources to significantly improve its trade infrastructure—power, water, production facilities, etc.—adds to the disadvantages of sourcing from SSA countries. Furthermore, underdeveloped production facilities, including aged existing plants and equipment, increase the cost of production while reducing quality and variety. SSA's challenging business climate, primary corruption and political instability, adds to the difficulty of attracting new and increased investment. Uncertainty about AGOA's duration and preference erosion (a weakening in the effectiveness of preferences due to falling prices in the world market caused by general trade liberalization) also limit the attractiveness of beneficiary countries for foreign and domestic investors.

The ITC study on the competitiveness of apparel and textile inputs identified products that have the potential to be produced competitively in SSA countries, such as cotton yarn, cotton knit fabric, cotton denim fabric, and woven cotton shirting. Cotton is widely cultivated in the region, and is the primary fiber currently used in the production of yarn and fabric in SSA countries. These products can either be directly exported or used in downstream production of apparel for export. Other items cited for potential competitive production in the region were niche products that supply narrow markets such as organic cotton products, woven wool fabric, high-tech and industrial fabrics and local print fabrics. As the global demand for organic and environmentally friendly goods increases, organic cotton products, for example, might be competitive in the global marketplace. Woven wool fabrics and high-tech and industrial fabrics, which South Africa currently supplies to the United States and Europe, also have the potential to be more competitive in these markets. Africa has a long tradition in mostly hand-loomed local print fabrics. Although these fabrics are mainly produced for local markets, they may have potential export markets as home furnishings. Another promising dimension is production for Africa's own local and regional markets. Many African countries produce fabrics that reportedly are not of sufficient quality for U.S. and European markets. However, local and regional marketing of such items may be profitable and may encourage backward and forward supply chain linkages in the long run. As a whole, the competitive production of textile and apparel inputs in SSA countries varies, as each

beneficiary has its own factors that contribute to or inhibit production. The ITC report notes that one of the biggest challenges affecting production of textile and apparel inputs in SSA countries is the lack of regional demand for these products.

Expert Panel's Options for Congressional Consideration of Possible Changes to AGOA or Other Trade Preference Programs

Based on our review of the ITC study and other related research, and in consultation with trade and industry experts, we identified four issue areas where possible changes to AGOA or other U.S. trade preference programs could be made to improve the competitiveness of the textile and apparel inputs sector in SSA beneficiary countries. The four issue areas include (1) extending the duration of AGOA provisions and making AGOA permanent, (2) expanding AGOA LDC benefits to all beneficiaries and duty-free eligibility for other textile products, (3) creating non-punitive and voluntary incentives, and (4) preserving existing benefits under AGOA and modifying other preference programs and trade agreements. The panel of experts GAO convened discussed and ranked nine specific options for congressional consideration in each area. Panelists ranked each option on a 7-point priority scale that ran from "extremely low priority" to "extremely high priority." Among the specific options, the panel ranked extending the duration of the third-country fabric provision for LDCs beyond 2012 and extending the duration of AGOA beyond 2015 as being an extremely high and very high priority, respectively, for congressional consideration. Experts explained that these steps are essential to attract investment in the textile and apparel inputs sector because companies need to have certainty that AGOA benefits will persist, as investments in the industry are usually long term. A more detailed discussion of the issue areas and accompanying options follows.

Issues Related to Extending the Duration of AGOA Provisions and Making AGOA Permanent

The options considered under this issue area were to:

- Extend the duration of the third-country fabric provision for LDCs beyond 2012 to provide potential investors with greater long-term certainty about the program's benefits.
- Extend the duration of AGOA beyond 2015 to provide potential investors with greater long-term certainty about the program's benefits.
- Make AGOA benefits permanent to provide potential investors with greater long-term certainty about the program's benefits.

The options to extend the duration of AGOA and its third-country fabric provision for LDCs stem primarily from the desire to enhance predictability for investors, who are risk-averse and reluctant to make long-term commitments in SSA with AGOA and its third-country provision set to expire in 2015 and 2012, respectively. According to the ITC report, textile and apparel firms in SSA have difficulty securing much-needed capital to cover operating expenses and finance costly infrastructure improvements. Without adequate investment, SSA countries are unable to capitalize on AGOA benefits. Exacerbating the situation, much foreign direct investment fled SSA after the 2004 removal of global textile and apparel import quotas.

Panelists expressed the opinion that extending AGOA would encourage investment in Africa. According to previous GAO analysis, a surge in trade is typical upon implementation and renewal of trade preference programs. One panelist highlighted the idea that extending AGOA would enhance predictability for investment in the “missing middle” of the supply chain, enabling raw materials produced in Africa, such as cotton, to be used in local fabric and other inputs production. However, some panelists noted that there are currently other trade policy measures being developed with non-SSA regions and countries that compete with SSA. They argued that priority must be given to extending AGOA relative to other trade programs because of SSA’s competitive disadvantage and to prevent preference erosion. The options to extend AGOA and its special provisions thus garnered considerable support from the panel of experts and emerged as very high and extremely high priorities, respectively.

The option to make AGOA permanent arose in response to concern from investors and trade experts that a limited extension is inadequate to ensure long-term sustainability. Although this option would make AGOA program benefits permanent, each country would have to maintain its eligibility. There are currently many free trade agreements that offer duty-free benefits on a continuing basis,¹³ a significant change from when AGOA was first implemented. As a result, one panelist emphasized that AGOA needs more predictability for beneficiaries to compete with countries and regions with which the United States has free trade agreements. However, other expert testimony and previous GAO analysis

¹³For example, under the Dominican Republic-Central America-United States Free Trade Agreement signed in August of 2004, the United States extended permanent duty free access to six countries in the Western Hemisphere, which, as a group, are responsible for significant textile and apparel production.

raised concerns about the trade-off between investment predictability and the ability to leverage trade liberalization in developing countries, a cornerstone of broader global trade policy. One panelist observed that permanence could potentially provide a disincentive to implementing other internal changes in countries' economies that might allow them to become more competitive. Furthermore, AGOA permanence would not be sufficient to overcome the fact that the overall structure of the global textile and apparel trade has shifted, consolidating benefits enjoyed by Southeast Asian producers. As a result of these critiques, the option to make AGOA permanent received slightly less support than the options extending its duration and was assigned a generally high priority by panelists.

Issues Related to
Expanding AGOA LDC
Benefits to All
Beneficiaries and to
Improving Use of AGOA

The options considered under this issue area were to:

- Expand third-country fabric provision to South Africa to improve regional integration in the textile and apparel sector.
- Expand AGOA LDC benefits to all AGOA beneficiaries to improve regional integration in the textile and apparel sector.

Options to expand the scope of AGOA benefits to other SSA countries, especially to South Africa, are intended to encourage regional integration by fostering trade between African countries, and to broaden the use of AGOA. One African country official noted that the regional benefits of AGOA cannot be measured solely by U.S. import numbers. Countries gain many benefits through increased regional sourcing and integration. Despite the fact that the textile sector is one of the most regionally integrated, South Africa is not included in the rules of origin provision that allows use of third-country fabric in qualifying duty-free exports. Industry sources identified in the ITC report suggest that broadening third-country fabric benefits to South Africa would “lead to greater economies of scale and expansion in the apparel industry” by supporting backward and forward integration and development in the textile sector. A South African embassy representative called for such an extension by explaining that despite South Africa’s non-LDC classification, some economic sectors are characterized by low levels of development. According to the ITC report, “industry sources stress that duty-free eligibility in the U.S. and EU markets for South African textiles could make a substantial contribution to the industry’s competitiveness and that the downward trend in the industry might be reversed if rules of origin were amended to allow greater access to third-country fabrics for South African apparel

exporters.” As another example of an attempt to boost industry competitiveness, the ITC report cites South Africa’s creation of “industry clusters consisting of firms from the textile, clothing, retail, and other sectors that work cooperatively” to offer world class manufacturing. ITC officials, however, stated that this approach would be difficult to pursue elsewhere in SSA due to inadequate infrastructure. Some panelists recommended modifying this option to simply extend AGOA LDC benefits to all SSA countries, but the primary focus remained on South Africa. Both the option to expand third-country fabric provisions to South Africa and the one to expand LDC benefits to all AGOA beneficiaries received similar support, emerging as generally high priorities.

During the discussion on ways to expand benefits, a panelist raised the concern that AGOA is being underutilized, in part because certain specialized products containing synthetic fabrics, such as luggage, are not offered duty-free eligibility. A panelist with extensive knowledge of the textile and apparel trade noted that synthetics, some of which are not currently covered under AGOA, offer greater savings on duties, but they also have higher costs of production. Synthetics, as a subset of manmade-fiber products, face higher U.S. import tariffs than cotton products. For instance, the normal duty for a cotton t-shirt is 16.5 percent of the value, whereas the normal duty for a manmade fiber t-shirt is 32 percent of the value. Thus, increased production of synthetic fabric could offer significantly larger duty savings for AGOA beneficiaries and could provide for greater utilization of benefits. However, another panelist pointed out that, while benefits could be expanded to other textile products, such a policy would not produce significant gains in trade or production competitiveness. Production of synthetic fibers is capital intensive, requires extensive infrastructure capabilities, and relies heavily on petrochemicals. SSA countries generally lack such capacity and, as a result, synthetics represent a small portion of the region’s overall textile exports. The discussion concluded with the view that pursuing increased production of synthetic fabrics is unrealistic given the realities of the SSA textile and apparel sector.

**Issues Related to Creating
Non-punitive and
Voluntary Incentives**

The option considered under this issue area was to:

- Create a voluntary “duty credit” program for U.S. importers of apparel from AGOA beneficiaries that is manufactured using fabric from the region.

The option to create non-punitive incentives to encourage use of regional inputs offers a way to stimulate voluntary regional investment. The non-punitive focus is a direct response to the negative results of the previously implemented “abundant supply” provision,¹⁴ which penalized the insufficient use of domestic fabric by disallowing duty-free eligibility. The ITC report cited one industry source as suggesting an “earned import allowance program,” similar to those in place for Haiti and the Dominican Republic, as a possible approach to creating non-punitive incentives to encourage use of regional inputs. Such an incentive program would allow apparel producers to earn the right to use third-country fabric, provided they use specified volumes of regional fabric. Some panelists, however, pointed out that this program is intended to facilitate the exchange of U.S. content in a specific bilateral relationship, which is not entirely relevant to AGOA. The earned import program was thus rejected in favor of the option of a simple “duty credit” approach.

A simplified duty credit program would create a non-punitive incentive for use of African regional fabric. For example, a U.S. firm that imports jeans made with African origin denim would earn the right to import jeans from Bangladesh, duty free. A ratio could then be set to account for competitive differences, such as a specified square meter equivalent of African origin jeans earning a credit for a specified square meter equivalent of Bangladeshi origin jeans. Panelists that supported this option focused especially on its voluntary and non-punitive nature. However, one panelist expressed concern that the duty credit program is an indirect approach to stimulating African textiles that would be ineffective. Ultimately, the duty credit program received extensive support, emerging as a very high priority.

¹⁴The abundant supply provision, enacted in a 2006 AGOA amendment and repealed in 2008, stipulated elaborate conditions for when third-country fabric could or could not be used. (For a detailed explanation of the abundant supply provision, see ITC, *Commercial Availability of Fabric and Yarns in AGOA Countries: Certain Denim*, Pub. 3950, September 2007.)

Issues Related to
preserving Existing
Benefits under AGOA
and Modifying Other
Preference Programs and
Trade Agreements

The options considered under this issue area were to:

- Refrain from extending trade preferences provided under AGOA to LDCs outside SSA to preserve benefits for textile and apparel production in AGOA beneficiary countries.
- Modify rules of origin provisions under other U.S. trade preference programs or free trade agreements to provide duty-free access for products that use AGOA textile and apparel inputs.
- Simplify AGOA rules of origin to allow duty-free access for certain partially assembled apparel products with components originating outside the region.

The option to refrain from extending AGOA-type preferences to other LDCs aims to preserve advantages that allow the textile and apparel industry in SSA to compete in the global market. The issue of preference erosion was raised by experts we consulted and in literature we reviewed, as well as in the ITC report. In particular, there is some controversy regarding whether LDCs in Asia that are not included in U.S. regional preference programs should be entitled to the same benefits enjoyed by SSA LDCs that are AGOA beneficiaries. As we previously reported,¹⁵ two of these countries—Bangladesh and Cambodia—have become major producers and exporters of apparel to the United States and have sought duty-free access to U.S. markets. In comments filed with USTR, some African beneficiary countries, as well as certain U.S. industries, have opposed the proposals currently under consideration at the World Trade Organization (WTO) Doha Round negotiations to provide “duty-free, quota-free” access for all LDCs. African trade experts and African government representatives reiterated concerns that giving preferential access to Bangladesh and Cambodia for apparel might endanger continued development of the African apparel export industry that has grown up under AGOA. The ITC study also cited sources cautioning against extending duty-free treatment to highly competitive textile and apparel producing countries.

Trade preference erosion received considerable attention from the GAO expert panel. One panelist noted that the proposal to grant duty-free, quota-free access to LDCs has been provisionally accepted by WTO Doha

¹⁵ [GAO-08-443](#).

Round negotiators. In effect, this provision would undercut the exclusive benefits currently enjoyed by AGOA beneficiaries. A private-sector representative on the panel said many companies believe that duty-free, quota-free access will go into effect if the Doha Round is successfully concluded, and the belief is already affecting their decisions on where to invest. On the other hand, other experts on the panel pointed out that duty-free, quota-free access, as currently under consideration in Doha Round negotiations, would cover only 97 percent of tariff lines. The provision to exclude 3 percent of tariff lines could be used to protect trade preferences for countries that are less competitive in key sectors, such as textile and apparel production. A panelist representing international textile and apparel producers in Africa said that some of the major manufacturers doing business in AGOA countries have stated that they would move production to Bangladesh or Cambodia if these countries are granted duty-free access for textile and apparel. Given the potentially critical impact of extending AGOA benefits to LDCs outside Africa, panelists gave the option to refrain from extending preferences to non-SSA LDCs a very high level of priority for congressional consideration.

Options to modify rules of origin provisions under AGOA and other U.S. trade preference programs or free trade agreements are intended to benefit SSA textile and apparel input production by providing opportunities to combine production with U.S. trade partners in other regions. Panelists suggested an option for simplifying rules of origin provisions in AGOA to grant duty-free access for partially assembled garments that are jointly produced in other countries that are U.S. free trade partners or benefit from U.S. trade preferences. For example, a consultant doing business with companies producing in AGOA countries explained that one of his clients had expressed interest in assembling high-value shirts in one AGOA beneficiary with collars and cuffs produced in a non-AGOA country, but was unable to because of rules of origin restrictions. According to ITC officials and the Harmonized Tariff Schedule, such partial assembly of garments is currently allowed under AGOA, but confusion persists among SSA manufacturers and outside experts. Furthermore, one expert expressed concern that placing an increased emphasis on partially assembled garments might relegate SSA manufacturers to lower value-added production. The ITC study also refers to African government and industry sources' recommendations for changing the rules of origin under non-AGOA trade preference programs and free trade agreements to allow apparel made with SSA fabric to qualify for duty-free treatment in the United States. Similarly, one panelist representing companies that produce in Africa noted that the U.S.-Morocco Free Trade Agreement could theoretically be modified to provide

duty-free benefits for textile and apparel items produced with inputs from AGOA countries. However, other panelists indicated such changes to most existing free trade agreements would have minimal impact on the competitiveness of AGOA producers. They noted that, due to the small scale of textile and apparel production in the region and the distance between AGOA beneficiaries and countries that have a free trade agreement with the United States, such arrangements would probably not be viable. Panelists assigned these options to modify rules of origin provisions as generally high priorities for congressional consideration.

Expert Panel's Options for Congressional Consideration of U.S. Government Measures to Improve Competitiveness of the Textile and Apparel Inputs Sector in AGOA Beneficiary Countries

As part of our review, we consulted with experts on measures the U.S. government could take to help increase investment in and improve the competitiveness of textile and apparel inputs production in SSA, beyond changes to AGOA. Based on our review of the ITC study and other related research, and in consultation with trade and industry experts, we identified five issue areas in which the U.S. government could take action to improve the competitiveness of the textile and apparel inputs sector in AGOA beneficiary countries. These issue areas include (1) infrastructure development, (2) trade capacity building (TCB) assistance, (3) U.S. government international finance entities, (4) SSA regional integration, and (5) unfair trade practices of AGOA competitors. Under these issue areas, the panel discussed and ranked 25 specific options for congressional consideration. Panelists ranked each option on a 7-point priority scale that ran from "extremely low priority" to "extremely high priority." The panel ranked funding regional trade hubs to provide TCB to the industry and aligning TCB and development assistance with AGOA as extremely high priorities for Congress to consider. Many of the experts we consulted consider TCB a key component of improving the competitiveness of the textile and apparel inputs industry in the region. Furthermore, they consider it necessary to address problems that affect competitiveness of the industry to maximize the benefits of AGOA. A more detailed description of the issue area and accompanying options is presented below.

Issues Related to Infrastructure Development

The options considered under this issue area were to:

- Realign U.S. trade policy and programs to support infrastructure and energy development in Africa to ensure trade preferences and assistance result in projects that will improve competitiveness of industries in the region.

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- Increase collaboration with African governments and international donors to improve infrastructure and energy.
 - Reauthorize the Millennium Challenge Corporation (MCC) and adjust the legislation to allow more private-sector involvement, create regional compacts, and extend the duration of compacts.
 - Create incentives for private-sector investment and provision of services in infrastructure and energy by leveraging resources in a manner that creates better business opportunities.
 - Encourage programmatic coordination among U.S. government entities involved in development assistance and trade programs to develop infrastructure and energy projects that reduce the cost of doing business.
 - Incorporate metrics to measure reduction in the cost of doing business for infrastructure investment.
 - Support renewable energy technology transfer to SSA countries that might have a natural disposition for such production to address energy supply shortages.

Options to support infrastructure development are intended to lead to a reduction in the cost of doing business in SSA countries. There is general agreement among experts we consulted, the ITC study, and other literature we reviewed that inadequate infrastructure is one of the main obstacles to doing business in Africa and one of the factors that most affects the competitiveness of production of textile and apparel inputs in SSA. Production of textile and apparel inputs is particularly affected by the lack of reliable power supplies, lack of abundant clean water, and poor transportation infrastructure. The ITC study reports that many SSA countries have among the highest cost rates and the most unreliable supply of electrical power in the world. According to the study, disruptions in electricity supply reduce productivity and add to cost. For example, a disruption in power supplies can ruin an entire production run in yarn and fabric mills, and increase cost do to the use of back-up generators. ITC also reported that the lack of an abundant supply of clean water in many SSA countries affects the production of textile and apparel inputs. Dyeing fabrics requires the use of clean water, which is contaminated in the process. Wastewater treatment capabilities are thus necessary to meet environmental compliance standards required in the international market. The ITC study and other reports indicate that poor transportation infrastructure is a major constraint to trade in SSA

countries. Textile and apparel production is particularly affected in the region because poor transportation infrastructure inhibits the ability of producers to meet tight delivery schedules demanded by retailers. Delays in regional and international trade are caused by poor roads, railways, and ports.

Recognizing the challenges that poor infrastructure places on trade and the textile and apparel sector in SSA countries, the panel discussed how U.S. assistance for infrastructure is supplied to the region and provided options that could improve its implementation. A panelist said that there is limited coordination among MCC,¹⁶ which provides a significant level of assistance for infrastructure, other U.S. assistance, and U.S. trade policy. Several panelists agreed that infrastructure development in Africa must be strategically planned to benefit exports and regional industries, and coordination between U.S. trade and development agencies is necessary to achieve that goal. For example, one panelist said that it is not only a matter of building a port, but making sure that the port functions well and is positioned to serve key industries. In the same context, a panelist representing textile and apparel producers in Africa indicated that for infrastructure development to have an impact in making the textile, apparel, and other industries more competitive, infrastructure projects must result in a reduction in the cost of doing business in SSA. Several panelists mentioned the need to establish metrics to measure benefits of U.S.-sponsored infrastructure projects. Panelists also discussed the need to take a regional approach for infrastructure development in Africa; they indicated that the bilateral approach that MCC takes in developing compacts limits the impact infrastructure projects can have. For example, one panelist said that the best way Kenya can reduce the cost of electricity is to invest in Ethiopia because Ethiopia has the greatest hydroelectric power potential in East Africa. Thus, Kenyan investment in a hydroelectric project in neighboring Ethiopia would benefit Kenyan consumers of electricity down the line because they would have greater access to cheaper electricity. A panelist from the private sector said that there need to be incentives created for the private sector to invest in infrastructure and that companies must see infrastructure projects in Africa as a business opportunity. Another panelist explained that there is private sector interest in developing energy facilities in Ethiopia; however, there is a lack of a transmission and distribution system, which discourages investment. Based on this discussion, panelists ranked the option on

¹⁶Currently, 10 SSA countries have compacts with MCC.

reauthorizing MCC and encouraging programmatic coordination for infrastructure development as extremely high priorities for congressional consideration.

Issues Related to TCB Assistance

The options considered under this issue area were to:

- Reauthorize the Africa Global Competitiveness Initiative to provide funding for U.S. Agency for International Development (USAID) trade hubs to provide TCB assistance to SSA.
- Provide resources to USAID trade hubs designated for TCB assistance to address the competitive disadvantages the textile and apparel inputs sector faces by implementing business solutions and increased marketing.
- Align U.S. TCB and development assistance with AGOA to ensure that it addresses the competitive challenges and disadvantages of exports industries, such as the textile and apparel inputs industry.
- Increase and promote organic production and fair labor and trade practices to improve SSA countries' potential to attract international retailers that emphasize these practices.
- Intensify U.S. assistance to the SSA cotton industry to improve production and further integrate cotton production with the textile and apparel industry.

Options on TCB¹⁷ emphasize the need to have a stronger connection between trade preferences and development assistance to address competitive disadvantages in the textile and apparel inputs industry and improve business opportunities in SSA countries. TCB is considered by many experts we consulted to be a key component of improving the competitiveness of the textile and apparel inputs industry in SSA. However, there is a lack of funding directed at the textile and apparel input industry. While AGOA authorizing legislation refers to TCB, as we

¹⁷USAID has defined TCB in part to include activities meant to help countries build the physical, human, and institutional capacity to benefit more broadly from a rules-based trading system. TCB is provided in several areas, including trade facilitation, human resources and labor standards, physical and economic infrastructure, environmental sector trade and standards, financial sector development, competition policy, and foreign investment incentives.

previously reported, funding for this type of assistance is not provided under the act.¹⁸

USAID delivers TCB assistance in Africa through four regional trade hubs, which are funded by the Africa Global Competitiveness Initiative, scheduled to expire in 2010. While several panelists expressed support for reauthorizing this initiative to provide funding for the regional trade hubs, one government official noted that congressional reauthorization does not mean that funding will be provided. Funding would need to be provided separately through the appropriations process. A contractor who manages the West and Southern African trade hubs explained that there is no funding earmarked for assistance to the textile and apparel inputs industry, which makes it very difficult to implement targeted technical assistance projects. Rather, TCB assistance for the textile and apparel inputs sector comes out of limited discretionary assistance funding. The contractor estimated that less than \$1 million was spent by the two trade hubs on providing assistance to the textile and apparel industry in 2008. Nevertheless, according to the ITC study, textile and apparel industry representatives said that TCB provided by USAID trade hubs has advanced regional and international market opportunities. TCB assistance provided to the textile and apparel industry includes projects such as business-to-business events to foster trade linkages between the textile and apparel producers throughout Africa and a cross-section of the apparel industry doing business in the region. According to a USAID fact sheet, in 2007, such an event resulted in an estimated \$8 million in new trade deals. Industry sources indicated that greater TCB assistance for the textile and apparel inputs sector is needed.

Almost all members of the panel agreed that sufficient funding should be provided for TCB projects that increase the competitiveness of the textile and apparel industry by improving the ability to do business in the region. One panelist representing the private sector said that the reason AGOA has had limited results in the textile and apparel inputs sector is that there has not been a “supply response”—the textile supply industry did not respond to the trade opportunity AGOA created because of the industry’s limited capacity. Several panelists agreed that to maximize the benefits of AGOA, problems that affect competitiveness of the industry must be addressed, such as low labor productivity, inability to meet industry quality standards and volume requirements, and transport efficiency

¹⁸ [GAO-08-443](#).

problems. A panelist representing textile and apparel producers in Africa indicated that better coordination is needed between U.S. government trade policy and trade capacity assistance, allowing TCB to complement trade preferences and improving competitiveness. One panelist said that to achieve an integrated chain of production in the textile and apparel industry, TCB must be provided to other sectors in the supply chain. For example, to create an integrated chain of production in the textile and apparel industry, more assistance should be given to the African cotton industry. Also, for SSA countries to compete in the global market, assistance should be given to promote organic production and fair labor and trade practices, which may attract global retailers that emphasize these practices. The panel assigned options regarding funding for regional trade hubs to support the textile and apparel industry, and aligning TCB with AGOA as extremely high priority for congressional consideration.

Issues Related to U.S. Government International Finance Entities

The options considered under this issue area were to:

- Review and adjust the Overseas Private Investment Corporation's (OPIC) mandate to allow greater flexibility to support U.S. investment in textile and apparel inputs production in SSA countries.
- Increase Export-Import (Ex-Im) Bank lending and guarantees to facilitate investment in the SSA textile and apparel sector.
- Institute tax-related incentives for U.S. firms making a positive impact in AGOA countries to encourage companies to do business in these countries.
- Increase support for institutions to provide access to finance for investment, supplier credit, and day-to-day operations.
- Increase flexibility of OPIC, the Ex-Im Bank, and the U.S. Trade and Development Agency (TDA) to address local content and economic effects restrictions for AGOA countries.

Options to improve support of U.S. government international finance entities for textile and apparel production in SSA are aimed at attracting investment that could help make the industry more globally competitive. This would be particularly important for textile production, which is a capital-intensive industry. The ITC report notes several interrelated factors that affect industries' ability to competitively supply textile and apparel inputs: the cost and availability of capital (finance); the age of plants and

equipment; and the cost and quality of the labor pool. Firms need access to working capital to finance day-to-day operations and as longer-term capital investment to upgrade plants and equipment. However, firms in many SSA countries face high domestic bank lending rates, which can harm competitiveness. Therefore, they often use internal funds to finance operations. Foreign direct investment also has been an important source of capital for some SSA textile and apparel producers, particularly larger exporters. Much of the foreign investment in textiles and apparel comes from Asian countries, with a few other European and African countries also holding ownership shares. However, a substantial amount of textile and apparel-related foreign direct investment has left some SSA countries since quotas under the MFA were lifted in 2004, and overall foreign direct investment to SSA countries has declined.

The expert panel, our own research, and industry and government submissions to the ITC have identified some options for consideration by Congress. One submission to the ITC noted that access to U.S. government-sponsored or multilateral support will need to be enhanced if textile production is to become more globally competitive. It noted that U.S.-government sponsored financing entities, such as OPIC and the Ex-Im Bank, have typically been reluctant to participate in African textile production because doing so could be politically controversial. For example, OPIC officials stated that OPIC's ability to provide guarantees for U.S. investors is limited by its screening criteria, which rules out projects that could have a negative effect on U.S. employment. The Ex-Im Bank's statutory focus is on promoting U.S. exports by supporting U.S. exporters or those who are importing/purchasing U.S.-made products, such as textile machinery. One of our panelists noted that the Ex-Im Bank and TDA have restrictions on the amount of foreign content that can be included in a project and still qualify for guarantees or other support. In addition, the complications involved in complying with such requirements can be a disincentive for U.S. firms that want to do business in SSA countries. Some panelists urged that the United States provide more flexibility for the financing agencies, but one panelist raised a concern about whether such flexibilities would be available for all countries or whether they would be restricted to African countries. A written submission to the ITC by a representative of an African textile- and apparel-producing country noted that it would be beneficial if the United States could make available a line of credit (through OPIC, the Ex-Im Bank, or other entities) to assist private firms with viable expansion or modernization projects in the textile and apparel sector. This representative also suggested that U.S. policymakers consider making available an equity fund that could co-invest with local and foreign investors in projects in the textile and apparel sectors.

Although one panelist raised some questions about how these latter options would be implemented, overall, the panel expressed a high degree of agreement in favor of increased flexibilities for U.S. financing agencies and exploring other means to provide financing or investment funds for the SSA textile and apparel inputs industry.

Other options involved tax-related incentives for U.S. firms to invest or do business with SSA countries. A panelist noted that a more direct approach would be to offer tax incentives for investment and that such an approach has been a part of the consideration of AGOA legislation in the past. Another panelist concurred, noting some companies would be more willing to do business in AGOA countries, rather than in Southeast Asia, if a tax incentive were offered. One proposal was for an SSA economic activity tax credit that would grant favorable depreciation allowances on tangible capital investments. Other provisions included credits for qualified wages paid to workers; credits for fringe benefits paid; and allowances for the repatriation of profits from SSA investments. While the options associated with this issue area received a very high level of priority for congressional consideration from the overall panel, one panelist said that focusing on investment incentives rather than trade incentives could be too complicated and would run into difficulties from a “tax system management” perspective.

Issues Related to SSA Regional Integration

The options considered under this issue area were to:

- Support regional economic communities to help enhance the vertical integration and competitiveness of textile and apparel industries.
- Place a higher priority on support of regional economic programs in U.S. development programs.
- Place a higher priority on regional efforts under U.S. development programs, such as the African Global Competitiveness Initiative and MCC to encourage economic integration.
- Create incentives for countries to participate in regional economic communities.
- Support a general capital increase for the African Development Bank.

Options to support regional integration stem from a recognition that each SSA country is unlikely by itself to achieve full vertically integrated

production, with linkages throughout the supply chain. According to panelists, SSA countries must be able to work together to develop an efficient, competitive textile and apparel industry. While there are a number of structures and organizations (such as the Southern African Customs Union, Common Market of Eastern and Southern Africa, and the African Union) that foster regional integration in Africa, SSA countries still face numerous obstacles that hamper competitiveness, such as tariffs on cross-border trade, regulations, and access to transportation and energy networks.

In addressing regional integration, the panel expressed “very high” overall support for options that would encourage more regional cooperation in areas that could help SSA become more competitive in textile and apparel inputs production. The panel emphasized, however, an important distinction between supporting integration at the broader level of multilateral trade negotiations and supporting it through U.S. development assistance programs. It was noted that, in trade negotiations, distinguishing between LDCs and non-LDCs is problematic if the goal is to improve regional integration. This echoed comments the ITC received from a representative of an African regional organization and from industry sources. The panel also discussed having U.S. development programs (such as USAID) provide more resources for supporting regional economic communities. A representative of the development community noted that one challenge is that regional communities are not sovereign governments, and that it is more important for national governments to integrate with regional economic organizations. If national governments do not effectively coordinate their legislative actions with regional organizations, then implementation of development strategies can be undermined. Experts also stressed that African governments need to take action on regional economic integration and other reforms to capitalize on the economic opportunities presented by trade preference programs. Since national governments typically have ministers for integration with regional bodies, the panel concurred that any support for regional integration should occur through the national agencies responsible for integration. In this context, panelists pointed out that the MCC faces challenges in that its focus is on working with individual countries rather than regional entities. Accountability for projects is also more easily focused at the individual country level. One panelist suggested that there should be incentives for countries to integrate and implement their regional commitments. For example, placing conditions on aid could be an incentive to achieve more regional cooperation for countries reluctant to join agreements because they might lose tariff revenue. Another panelist noted that much of the focus of regional integration is on public-sector

structures but that working with the private sector also was important. A number of issues affect private-sector activities at a regional level, including regulations affecting trade and infrastructure. Panelists noted that entities such as the African Global Competitiveness Initiative work through the private sector and help industries solve their own problems, and that USAID-funded trade hubs appear to be having some success in working with the private sector.

At a broader level, some panelists mentioned the need for supporting other organizations that try to enhance cooperation among Africa's regional organizations. One panelist emphasized the importance of the African Development Bank and advocated a general increase in its capital to support the role it plays in coordinating regional infrastructure projects. In a similar vein, another panelist advocated support for the African Union because of the role it plays in coordinating positions in trade negotiations and its efforts to integrate all the regional economic communities into an African economic community. In general, the panel gave very high priority ratings for congressional consideration to the options in this issue area.

Issues Related to Unfair Trade Practices of AGOA Competitors

The options considered under this issue area were to:

- Increase U.S. resources to expand monitoring and enforcement actions regarding export subsidies and other unfair trade practices related to textile and apparel imports.
- Monitor U.S. imports of Chinese textile and apparel to expedite self-initiation of dumping and countervailing duty cases.
- Apply pressure to deter Chinese intellectual property violations related to African ethnic textile designs.

Options were suggested for the United States to employ trade remedies to address unfair practices of competitors that may indirectly affect the competitiveness of SSA textile and apparel production and prompt relevant discussions at the WTO. Recent trade data, our discussions with experts, and the ITC report indicate that SSA countries face challenges in retaining their small share of global trade compared with other major textile and apparel product exporters, such as China, India, Bangladesh, Cambodia, and Vietnam. As a major importer of African apparel products, the U.S. market is crucial to the continued development and competitiveness of African textile and apparel industries. However, if other competitors access the U.S. market while employing trade practices

that violate existing agreements or are otherwise unfair, they not only may have an adverse impact on U.S domestic industry but indirectly harm the competitiveness of African producers as well.

A panelist pointed out that across an array of clothing products, recent data show that U.S. imports from China have shown double-digit increases. The panelist noted further that China had been found to be illegally subsidizing textile exports and that the U.S. government has filed a trade dispute with the WTO. It was suggested that this indicates that the United States needs to devote more resources to monitoring and enforcing trade laws, particularly regarding China. A U.S. government panelist said that Congress has directed the Commerce Department to undertake monitoring of Chinese and Vietnamese apparel imports and to look for any unfair trade practices. It was further noted that three reviews of trade with Vietnam had been undertaken by the Commerce Department Import Administration and that no evidence of dumping had been found. Congress has also asked the ITC to monitor imports from China, and the administration has made a commitment to the textile industry to review trade practices.

A related issue raised by the expert panel and referred to in the ITC report concerned alleged violations of intellectual property rights by the Chinese involving ethnic African print fabrics. It was noted that the Chinese have become very competitive in producing and exporting traditional African print fabrics. As the ITC said, "In some cases, Chinese producers are alleged to have violated the intellectual property rights of these products by borrowing their copyrights or designs without attribution, or by falsely labeling the print fabric as being of African origin." The panel noted that the legal basis for action by the United States is less clear in this case than in cases of dumping and unfair trade practices affecting U.S. markets. However, the United States may be in a better position than the African countries affected to raise the issue, and this might prompt useful discussions at the level of the WTO. The option to increase U.S. resources to monitor export subsidies and other unfair trade practices related to textile and apparel imports received a very high level of priority for congressional consideration, while the other recommendations in this issue area received generally high priority.

Conclusion

This report is intended to provide Congress a range of options put forward by experts on ways to improve the competitiveness of SSA textile and apparel production so that AGOA beneficiary countries can better take advantage of the opportunities provided under the program. These options

will likely be considered within broader congressional deliberations on improving U.S. trade preference programs. Many of these options may be helpful, but as GAO has previously reported,¹⁹ trade-offs are inherent in trade preference programs. For example, although many experts agreed on the priority of extending the duration of AGOA beyond 2015 to provide potential investors greater long-term certainty about the program's benefits, others raised concerns that this could undermine the ability of African countries to grow beyond the need for a trade preference program and fully integrate into the global trading system. Similarly, although limiting certain trade preference benefits to LDCs makes sense, experts argued that enhancing the competitiveness of SSA textile and apparel inputs production necessitates regional integration; thus, extending these benefits to more advanced economies such as South Africa may be appropriate. Furthermore, the link between trade policy and economic development complicates potential policy responses. AGOA has generous benefits for textile and apparel, but many SSA countries face infrastructure and development challenges that must be addressed before they can fully take advantage of these benefits. Export-oriented manufacturing cannot survive without adequate physical infrastructure, while capacity-building assistance may be ineffective without global demand for production. Finally, government and other experts have stressed that African governments need to take action on governmental reforms to capitalize on the economic opportunities presented by trade preference programs.

Agency Comments and Our Evaluation

We provided courtesy copies of the draft report to USTR and ITC, but did not request official comments. USTR and ITC staff provided informal technical comments, which we incorporated in the report as appropriate.

We are sending copies of this report to interested congressional committees, the Secretary of Commerce, the Secretary of State, the U.S. Trade Representative, the Administrator of USAID, the Chairman of the ITC, the Chief Executive Officer of the MCC, and the Acting President of the Overseas Private Investment Corporation. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

¹⁹[GAO-08-443](#).

If you or your staffs have any questions about this report, please contact me at (202) 512-4347 or yagerl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.

A handwritten signature in black ink that reads "Loren Yager". The signature is written in a cursive style with a large initial "L" and "Y".

Loren Yager
Director, International Affairs and Trade

Appendix I: Scope and Methodology

In this report, we present information on options put forward by experts for Congress to consider for (1) possible changes to the African Growth and Opportunity Act (AGOA) or other U.S. trade preference programs and (2) other measures the U.S. government could take to help increase investment in and improve competitiveness of textile and apparel inputs production in sub-Saharan Africa (SSA).

To address these objectives, we reviewed the U.S. International Trade Commission (ITC) study on the competitiveness of textile and apparel inputs in AGOA beneficiaries conducted under the same mandate as GAO's review, as well as other ITC reports on SSA and related hearing materials. We examined U.S. trade statistics on textile and apparel imports to the United States in recent years, which we determined to be sufficiently reliable for the purposes of this report. We also conducted a literature review on issues related to the textile and apparel industry and investment in SSA. We met with U.S. agency officials familiar with U.S. trade preferences and development programs, including the Office of the U.S. Trade Representative, the Department of Commerce's Office of Textiles and Apparel, the U.S. Agency for International Development, the Millennium Challenge Corporation, and the Overseas Private Investment Corporation. We met with trade officials from 12 African embassies in Washington, D.C. We also interviewed knowledgeable individuals from academia and policy institutes, consultants involved in work related to U.S.-Africa trade, and private-sector representatives of U.S. and African textile industries and U.S. retail and apparel import industries. Through these sources, we identified numerous suggestions for how the U.S. government could support competitiveness in the African textile and apparel industry.

Additionally, we convened a panel of experts and key informants on June 2, 2009. To select the experts and key informants for our panel, we identified broad categories of the types of individuals and representatives that would be needed to ensure we covered as full a range as possible of opinions and interests. We drew up a list of potential panelists for each of our categories based on our review of the literature and recommendations made by knowledgeable parties. Many of the panelists we invited had a special interest or expertise in Africa. Sixteen panelists were able to attend our panel on June 2, 2009, including representatives of relevant U.S. government agencies; private-sector firms and associations in the textile and apparel industry; and academia and think tanks. In addition, a representative from the Washington-based African embassies' working group on AGOA also attended. However, some of the panelists were not able to participate in all of the day's sessions. We invited representatives

from the African private sector, the Common Market for Eastern and Southern Africa, and the World Bank, but those individuals were not able to attend. To the extent possible, we conducted interviews with or obtained written input from experts who were not able to attend our panel.

There are differing opinions about whether promoting textile and apparel production in SSA countries should be a priority under AGOA. Some Africa experts suggest that there should be a greater focus on agricultural production, an area where SSA countries appear to have a greater competitive advantage. Similarly, other development experts question whether the benefits provided under AGOA should be exclusive to SSA countries, and support the idea of extending trade preferences equally among all lesser-developed countries (LDC). Our report does not take a position on these issues, but focuses on textile and apparel inputs production in AGOA beneficiary countries according to the requirements in the mandate.

The panel discussed three topics: (1) the ITC's analysis of potentially competitive products and challenges for the textile and apparel industry in SSA, (2) possible changes to AGOA or other U.S. trade preference programs, and (3) other measures to support African textile and apparel inputs production. To facilitate the discussions concerning the last two topics, we prepared lists of possible changes and other measures based on information and recommendations we obtained from knowledgeable parties and relevant literature. We presented these lists to the panel to introduce each topic and stimulate discussion.

To obtain an overall sense of the panelists' priorities for improvement, we conducted ranking exercises at the end of the discussions on possible changes to AGOA and other measures to support the African textile and apparel inputs industry. For these exercises, we relied on the lists of options we developed prior to the panel. During the discussions, we invited the experts to comment on the lists, and we made modifications or additions based on their input. After the panelists had discussed the options and agreed on the wording, we asked them to rank each on a 7-point priority scale that ran from "extremely low priority" to "extremely high priority." (See app. IV for more details.)

The options and associated priority rankings presented in this report are based on the opinions of the experts and key informants involved in the panel and should not be interpreted as GAO recommendations. According to generally accepted government auditing standards, GAO makes

recommendations to correct identified problems and improve programs and operations when the potential for improvements is substantiated by the reported findings and conclusions. These standards generally require GAO to develop criteria, condition, cause, and effect to describe a problem. Due to GAO's mandated reporting deadline for this project, which required us to submit a report within 90 days of the issuance of the ITC report on the same topic, we were not able to employ a methodology that allowed us to develop findings and conclusions according to these standards.

Appendix II: Panel's Options for Possible Changes to AGOA or Other U.S. Trade Preference Programs

Issues related to extending the duration of AGOA provisions and making AGOA permanent

The options considered under this issue area were to:

- Extend duration of third-country fabric provision for LDCs beyond 2012 to provide potential investors greater long-term certainty about the program's benefits.
- Extend duration of AGOA beyond 2015 to provide potential investors greater long-term certainty about the program's benefits.
- Make AGOA benefits permanent to provide potential investors greater long-term certainty about the program's benefits.

Issues related to expanding AGOA LDC benefits to all beneficiaries and to improving use of AGOA

The options considered under this issue area were to:

- Expand third-country fabric provision to South Africa to improve regional integration in the textile and apparel sector.
- Expand AGOA LDC benefits to all AGOA beneficiaries to improve regional integration in the textile and apparel sector.

Issues related to creating non-punitive and voluntary incentives

The option considered under this issue area was to:

- Create a voluntary "duty credit" program for U.S. importers of apparel from AGOA beneficiaries that is manufactured using fabric from the region.

Issues related to preserving existing benefits under AGOA and modifying other preference programs and trade agreements

The options considered under this issue area were to:

- Refrain from extending trade preferences provided under AGOA to LDCs outside SSA to preserve benefits for textile and apparel production in AGOA beneficiary countries.
- Modify rules of origin provisions under other U.S. trade preference programs or free trade agreements to provide duty-free access for products that use AGOA textile and apparel inputs.
- Simplify AGOA rules of origin to allow duty-free access for certain partially assembled apparel products with components originating outside the region.

Appendix III: Panel's Options for Other Possible Measures to Support SSA Textile and Apparel Sector

Issues related to infrastructure development

The options considered under this issue area were to:

- Realign U.S. trade policy and programs to support infrastructure and energy development in Africa to ensure that trade preferences and assistance result in projects that will improve competitiveness of industries in the region.
- Increase collaboration with African governments and international donors to improve infrastructure and energy.
- Reauthorize the Millennium Challenge Corporation and adjust the legislation to allow more private-sector involvement, creating regional compacts and extending duration of compacts.
- Create incentives for private-sector investment and provision of services in infrastructure and energy by leveraging resources in a manner that creates better business opportunities.
- Encourage programmatic coordination among U.S. government entities involved in development assistance and trade programs to develop infrastructure and energy projects that reduce the cost of doing business.
- Incorporate metrics to measure reduction in the cost of doing business for infrastructure investment.
- Support renewable energy technology transfer to SSA countries that might have a natural disposition for such production to address energy supply shortages.

Issues related to trade capacity building (TCB) assistance

The options considered under this issue area were to:

- Reauthorize the Africa Global Competitiveness Initiative to provide funding for U.S. Agency for International Development trade hubs to provide TCB assistance to SSA.
- Provide resources to USAID trade hubs designated for TCB assistance to address the competitive disadvantages the textile and apparel inputs sector faces by implementing business solutions and increased marketing.
- Align U.S. TCB and development assistance with AGOA to ensure that it addresses competitive challenges and disadvantages of export industries, such as the textile and apparel inputs industry.

- Increase and promote organic production and fair labor and trade practices to improve SSA countries' potential to attract international retailers that emphasize these practices.
- Intensify U.S. assistance to the SSA cotton industry to improve production and further integrate cotton production with the textile and apparel industry.

**Issues related to U.S.
government international
finance entities**

The options considered under this issue area were to:

- Review and adjust the Overseas Private Investment Corporation's mandate to allow greater flexibility to support U.S. investment in textile and apparel inputs production in SSA countries.
- Increase Export-Import Bank lending and guarantees to facilitate investment in the SSA textile and apparel sector.
- Institute tax-related incentives for U.S. firms making a positive impact in AGOA countries to encourage companies to do business in these countries.
- Increase support for institutions to provide access to finance for investment, supplier credit, and day-to-day operations.
- Increase flexibility of the Overseas Private Investment Corporation, Export-Import Bank, and U.S. Trade and Development Agency to address local content and economic effects restrictions for AGOA countries.

**Issues related to SSA
regional integration**

The options considered under this issue area were to:

- Support regional economic communities to help enhance the vertical integration and competitiveness of textile and apparel industries
- Place a higher priority on support of regional economic programs in U.S. development programs.
- Place a higher priority on regional efforts under U.S. development programs, such as the African Global Competitiveness Initiative and Millennium Challenge Corporation to encourage economic integration.

**Appendix III: Panel's Options for Other
Possible Measures to Support SSA Textile
and Apparel Sector**

- Create incentives for countries to participate in regional economic communities.
 - Support a general capital increase for the African Development Bank.
-

**Issues related to unfair
trade practices of AGOA
competitors**

The options considered under this issue area were to:

- Increase U.S. resources to expand monitoring and enforcement actions regarding export subsidies and other unfair trade practices related to textile and apparel imports.
- Monitor U.S. imports of Chinese textile and apparel to expedite self-initiation of dumping and countervailing duty cases.
- Apply pressure to deter Chinese intellectual property violations related to African ethnic textile designs.

Appendix IV: Further Details about the Panel Ranking Exercises

To obtain an overall sense of the panelists' priorities, we conducted two ranking exercises at the end of the discussions on (1) possible changes to AGOA and (2) other measures to support the African textile and apparel inputs industry. For these exercises, we relied on the lists of options we developed prior to the panel. During the discussions, we invited the experts to comment on the lists, and we made modifications or additions based on their input. After the panelists had discussed the options and agreed on the wording, we asked them to rank each on a 7-point priority scale that designated "7" as an "Extremely High Priority," "6" as a "Very High Priority," "5" as a "Generally High Priority," "4" as a "Moderate Priority," "3" as a "Generally Low Priority," "2" as a "Very Low Priority," and "1" as an "Extremely Low Priority."

We used electronic hand-held technology to facilitate this exercise, provide instant feedback, and also ensure anonymity for each panelist. This technology provided us with the average and distribution of votes for each option. We conducted two separate ranking exercises, the first for the AGOA-related measures, and the second for the other measures to improve the competitiveness of the African textile and apparel inputs industry.

Of the 16 experts and key informants that participated in the panel, 14 were present for the morning session and took part in that ranking exercise on changes to AGOA. At lunch, two of the original panelists left and two others joined the panel. These changes were due to scheduling conflicts and had been discussed beforehand. Therefore, the composition of the 14 panelists that took part in the afternoon ranking exercise was slightly different from the 14 that took part in the morning exercise. In addition, after the first three categories of "other measures" had been discussed and ranked, five panelists had to leave the panel; the remaining nine panelists took part in the discussion and ranking exercise for the final two of the "other measure" categories. Moreover, in the afternoon sessions, not all of the panelists chose to rank every recommendation. For these reasons, the ranking exercises are not directly comparable; therefore, we present the results of the afternoon sessions in the five categories.

An expert panel is a data gathering method that respects the views of all the experts, and experts with particular backgrounds or experiences can differ greatly; thus, we note in the text when there were differences of opinions on the options. In tables 2 and 3, we present the options ranked by highest mean score and provide the range of votes, along with the average scores, and the number of panelists that voted on each option to

**Appendix IV: Further Details about the Panel
Ranking Exercises**

provide insights and transparency into the ranking exercises. However, the results of the ranking exercise should be understood in the context of the panelists' discussions and not just in terms of the ranking exercise itself.

Table 2: Ranking Session for Possible Changes to AGOA

Recommendation	Mean	Range	Votes	Standard deviation
Extend duration of third-country fabric provision for LDCs beyond 2012	6.8	5-7	14	0.6
Extend duration of AGOA beyond 2015	6.4	4-7	14	0.9
Allow "duty credit" to U.S. importers of AGOA apparel using AGOA fabric	5.5	1-7	14	2.1
Preserve AGOA benefits by not extending textile and apparel preference benefits to non-SSA LDCs	5.5	1-7	14	2.4
Make AGOA benefits permanent	5.4	1-7	14	2.4
Simply the rules of origin for partially assembled garments	5.4	1-7	14	2.0
Expand third-country fabric provision to South Africa	5.2	2-7	14	1.8
Expand AGOA LDC benefits to all AGOA beneficiaries	4.9	1-7	14	2.2
Modify rules of origin under other preference programs and free trade agreements to allow AGOA inputs	4.9	1-7	14	1.9
<i>Expand duty-free eligibility for other textile products, such as synthetic fabrics</i>	4.4	1-7	14	1.7

Source: GAO.

Note: The last option was eliminated because ITC officials noted that AGOA LDCs are already eligible for duty-free export of "synthetic fabrics," especially everything that is in the "core textile chapter."

Table 3: Ranking Session for Possible Other Changes

Recommendation	Mean	Range	Votes	Standard deviation
Support infrastructure development				
Reauthorize MCC to allow for greater private sector involvement	6.0	1-7	14	2.0
Encourage programmatic coordination for infrastructure improvement	6.0	4-7	14	1.0
Realign U.S. policy and programs to support infrastructure and energy developments in Africa	5.9	2-7	11	1.6
Collaborate with African governments and international donors to improve infrastructure and energy	5.8	3-7	13	1.1
Create incentives for private-sector provision of services	5.8	4-7	14	1.1
Incorporate metrics for reductions in the cost of doing business for infrastructure investments	5.1	2-7	14	1.7

**Appendix IV: Further Details about the Panel
Ranking Exercises**

Recommendation	Mean	Range	Votes	Standard deviation
Support renewable energy technology transfer to SSA countries to improve energy supply	3.6	1-7	13	2.2
Fund targeted trade capacity building				
Fund regional trade hubs including market promotion and business linkages	6.9	6-7	14	0.4
Align U.S. trade capacity building (TCB) and development assistance with AGOA	6.5	4-7	13	0.9
Reauthorize the African Global Competitiveness Initiative	6.4	4-7	14	0.9
Intensify U.S. assistance to SSA cotton industry	4.2	1-7	13	2.0
Promote organic production and fair labor and trade practices	3.4	2-6	14	1.2
Improve support for government finance entities				
Institute tax-related incentives to U.S. firms making a positive impact in AGOA countries	6.3	3-7	14	1.1
Increase support for institutions to provide access to finance for investment, supplier credit, and day to day operations	6.2	5-7	14	0.8
Increase flexibility of OPIC, EXIM, and TDA to address local content and economic effects restrictions for AGOA countries	6.1	4-7	14	1.1
Increase EXIM lending and guarantees to textiles and apparel sector, directed toward Africa	5.9	3-7	14	1.2
Review and adjust OPIC's mandate to support textiles and apparel	5.6	2-7	14	1.7
Support regional integration efforts in SSA				
Place higher priority on regional efforts under U.S. development programs, such as the African Global Competitiveness Initiative and MCC	6.3	5-7	9	0.9
Create incentives for countries to participate in regional economic communities	6.3	5-7	8	0.9
Support regional economic communities	6.2	5-7	9	0.8
Place a higher priority on support of regional economic programs in U.S. development	6.2	5-7	9	1.0
Support a general capital increase for the African Development Bank	5.6	3-7	9	1.4
Address unfair trade practices of competitors of AGOA beneficiary countries				
Increase U.S. resources for monitoring and enforcement of export subsidies and other unfair trade practices, having to do with apparel	5.7	4-7	9	1.4
Continue pressure against Chinese intellectual property violations of African textile and apparel products	5.1	2-7	9	1.8
Monitor U.S. imports of Chinese textiles and apparel to expedite self-initiation of dumping and countervailing duty cases	5.1	1-7	9	2.0

Source: GAO.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

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