

WRITTEN COMMENTS

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ESQUEL MAURITIUS LIMITED (EML)

U.S. TRADE AND INVESTMENT WITH SUB-SAHARAN AFRICA: RECENT DEVELOPMENTS

UNITED STATES INTERNATIONAL TRADE COMMISSION

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These comments are being submitted by Esquel Mauritius Ltd (EML) pursuant to a request by the United States International Trade Commission under investigation **332-564**, *U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments* with a deadline of February 6, 2018 for all other written comments. Part of the investigation will focus on the markets of Cameroon, Cote d'Ivoire, Ethiopia, Kenya, Mauritius, Nigeria and South Africa. Because of EML's investment in Mauritius, it is uniquely qualified to provide comments on trade and investment in Mauritius.

About EML

EML is a wholly owned subsidiary of the Esquel Group, one of the world's leading producers of premium cotton shirts. The Esquel Group owns production facilities in China, Malaysia, Mauritius, Vietnam and Sri Lanka, as well as sales locations in the European Union, Japan and the United States. The Esquel Group's global operations serve U.S. and world brands such as Nike, Ralph Lauren, Tommy Hilfiger, J. Crew, Brooks Brothers, Hugo Boss and Lacoste.

EML has manufactured apparel products in Mauritius over the last 30 years. The company originally invested in the country in response to the quota system under the Multi-Fiber Arrangement (MFA). Notwithstanding the end of the MFA in 2005, the Esquel Group has remained in Mauritius because of the quality of the workmanship developed in this facility and the special AGOA duty-free privileges granted to the country. EML manufacturing plants in Mauritius include one main production site and three supplementary production sites. These facilities manufacture woven cotton shirts that are exported to the U.S.' major customers such as the PVH Corporation and the VF Corporation. EML's exports contribute 70% of the total Mauritius' apparel exports to the US annually.

Today, the company employs 5,500 direct employees in Mauritius and in addition to providing good living wages in Mauritius, EML has provided many additional economic and social benefits to the people of Mauritius. The jobs provided by EML have helped strengthen the country's economy, provided workers with skill trainings as well as benefits such as government-mandated social security contributions.

The company has invested significantly in enhancing the skill levels of the local labor force, developing managers and enabling leadership skills for them. EML's investment has been persistent and continuous and has reached at least US\$22 Million since we first established a presence in the country, with annual incremental investment averaging US\$1.8 million in the last five years. Besides the investment capital expansion, EML has also invested approximately US\$ 1.4 million in training and skill upgrading initiatives since 2013.

Mauritius's Trade Relation with the US

Mauritius currently enjoys a trade surplus with the United States valued at \$248.5 million on an annual basis. Imports through 2016 totaled \$335.4 million while US exports to Mauritius totaled \$87 million¹. It is important to note the size differential of the two countries as well as the make-up of the goods that are being traded. Mauritius is a small archipelago island nation in the Indian Ocean with a land mass of only 790 square miles making it the 169th largest country in the world with a population of just 1.2 million. The United States has a land mass of 3.8 million square miles making it the third largest country in the world with a population of over 323 million. Thus, the ability of Mauritius to consume U.S. made goods is limited by population and land mass.

As per the table below, U.S. exports to Mauritius include important manufacturing products like aircraft, machinery and fuels in large part.

¹ United States International Trade Commission report: U.S. Merchandise trade balance, by partner country 2016.

US Domestic Exports at FAS Value to Mauritius
By Harmonized Tariff Schedule (HTS) Chapters , ranked by 2016 exports

2016 rank	HTS Category	2015		2016		2016	2017
		million dollars		Percent of total	Jan.-Nov		
					million dollars		
	All categories	\$52.4	\$83.4	100.000	\$52.5	\$56.0	
1	88.--aircraft, spacecraft, and parts thereof	\$0.5	\$35.9	43.111	\$8.1	\$2.7	
2	27.--mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	\$24.1	\$18.8	22.550	\$18.8	\$19.8	
3	84.--nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	\$6.1	\$7.0	8.384	\$6.3	\$8.2	
4	85.--electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	\$1.6	\$4.7	5.679	\$4.5	\$3.8	
5	90.--optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	\$1.8	\$3.3	3.899	\$3.0	\$2.4	
6	98.--special classification provisions, nesoi	\$3.2	\$2.1	2.483	\$1.9	\$2.4	
7	44.--wood and articles of wood; wood charcoal	\$1.2	\$1.5	1.805	\$1.2	\$1.7	
8	71.--natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	\$2.0	\$1.0	1.150	\$0.6	\$0.6	
9	21.--miscellaneous edible preparations	\$1.3	\$0.9	1.116	\$0.9	\$1.0	
10	39.--plastics and articles thereof	\$1.0	\$0.9	1.053	\$0.7	\$1.5	

Meanwhile, the exports from Mauritius to the United States include necessity goods that are in high demand in the US such as knit and woven apparel, jewelry and fish as per the table below.

US Imports for Consumption at Customs Value from Mauritius
By Harmonized Tariff Schedule (HTS) Chapters , ranked by 2016 imports

2016 rank	HTS Category	2015		2016		2016	2017
		million dollars		Percent of total	Jan.-Nov		
					million dollars		
	All categories	\$395.7	\$335.4	100.000	\$311.5	\$262.7	
1	62.--articles of apparel and clothing accessories, not knitted or crocheted	\$194.8	\$174.2	51.936	\$164.4	\$116.0	
2	71.--natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	\$105.1	\$60.7	18.082	\$55.9	\$52.9	
3	16.--edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	\$39.9	\$40.2	11.974	\$35.8	\$30.1	
4	61.--articles of apparel and clothing accessories, knitted or crocheted	\$20.6	\$22.8	6.801	\$21.2	\$22.1	
5	01.--live animals	\$10.4	\$10.2	3.037	\$9.0	\$10.2	
6	17.--sugars and sugar confectionery	\$4.7	\$7.2	2.161	\$6.6	\$10.0	
7	90.--optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	\$6.7	\$6.8	2.042	\$6.4	\$7.4	
8	85.--electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	\$0.8	\$3.1	0.921	\$2.7	\$1.1	
9	03.--fish and crustaceans, molluscs and other aquatic invertebrates	\$2.8	\$1.7	0.510	\$1.6	\$2.9	
10	96.--miscellaneous manufactured articles	\$2.3	\$1.6	0.470	\$1.4	\$1.5	

Out of total imports from Mauritius, apparel constitutes 62% and jewelry accounts for 18%. While apparel represents 62% of Mauritius' exports to the United States, the total imports of

apparel from Mauritius represent only 0.19% of the total apparel imports by value, and only 0.08% in terms of volume, into the United States from all countries, making Mauritius the 34th ranked apparel supplier. Of the woven apparel exports, men's shirts, the category of EML focus, accounts for 74% of the total. As previously mentioned, the U.S. brands for which we produce are in the high- end dress shirt market, thus the value of our shirts is higher than many other shirt making countries due to the quality and workmanship. In fact, Mauritius has the highest value to volume ratio of all the sub-Saharan states demonstrating its success in moving to higher value-added apparel products. And these higher value, premium end products cannot always be easily sourced from other countries nor the U.S. domestically.

The second largest export to the United States is diamonds. Diamond cutting is a key industry of Mauritius and by its very nature has a very high value upon importation. Thus, the quantity of diamonds imported is not that significant but because of the high value, it inappropriately inflates the value of imports to the U.S. Again, the make-up of the exports, high value men's dress shirts and diamonds inflate the value of exports to the U.S. making the trade surplus seem larger than it actually is.

Another factor that should be considered when examining the trade balance is a non-quantifiable element: the export of U.S. business practices. As a supplier for leading U.S. brands, EML ensures that its factories meet all corporate social responsibility standards for U.S. companies. Our facilities pay wages far in excess of the country minimum wage and comply with U.S. standards for the workforce. This practice is a key U.S. export that impacts the industry across the country positively as other companies see the need to raise their standards to meet EML's. Thus, the United States is able to mold business practices in the country rather than let other competitor countries' practices lead the way.

The possible exports from Mauritius are severely restricted due to the limitation in the size of land, workforce and resources. EML submits that although the trade balance seems tilted in favor of Mauritius, the make-up of the products exported – apparel and diamonds - do not harm,

nor displace, U.S. apparel production or the diamond industry, and rather, Mauritius offers an alternative supply base to the larger Asian apparel suppliers to the U.S.

Why Mauritius holds a strategic importance in Africa?

i) Mauritius as a friendly and favorable business environment for US companies

Mauritius is among the world's most open economies to foreign ownership and has consistently been among the largest recipients of FDI per capita. In 2017, Mauritius became the number one destination for investment in all of Africa despite its size both physically and economically, and overtook South Africa, for the first time, to take the first place in terms of the business environment friendliness (World Bank's 2017 Doing Business). Mauritius is the only sub-Saharan Africa nation that allows online company registration, further facilitating and encouraging investment in the country. Mauritius is one of a handful of SSA countries that is a party to the Hague Apostille Convention which facilitates the legalization requirements of foreign public documents between nations. This legalization process helps satisfy a foreign court or person that the documents it may receive are indeed what it declares itself to be. It provides a sense of security and trust to investors. In Mauritius, obtaining an investment approval normally only takes three days. Further, a locally incorporated entity is considered a domestic entity regardless of its foreign ownership or control and therefore entitled to all rights and protections of native companies. The opportunity and openness of Mauritius to foreign investment demonstrates that the country has established practices that offer great business opportunities for U.S. companies and protect their interests, as well as operate at the high end of global standards.

Furthermore, EML as global brand supplier must ensure that it has available multiple sourcing platforms. Additional investment that may have gone into our production in China, Malaysia or Vietnam, is now being focused in Mauritius not only due to its investor friendly climate, but particularly in light of the U.S. withdrawal from the Trans Pacific Partnership and the extension of the AGOA for ten years.

ii) Mauritius as a Key Strategic Ally

The free flow of goods through the Indian Ocean is of utmost interest to the United States. Mauritius is strategically located in the shipping lanes through these waters. It is important that the U.S. have allies in the area to ensure that trade and shipping lanes do not become dominated by other global powers. China is investing significantly in the “One Belt, One Road” strategy to build up connectivity in the Indian Ocean lanes. It is important that the United States keep a strong allied presence in the area to protect and facilitate shipping and the flow of goods. Further, the bilingual English and French speaking population makes the country ideal for U.S. companies to conduct business and invest. We submit that continued strong relations with Mauritius by the United States will send signals to other global powers as well as other nations in the African continent of its interest in the Indian Ocean.

Moreover, Mauritius has set an example of good governance, rule of law and democracy in Africa so that supporting Mauritius will help advance and spill over such important American values and principles across the continent.

iii) Mauritius as a Reliable and Benign Trade Partner

For many of the reasons stated above, the strategic geopolitical location of the nation in the Indian Ocean, the open investment climate, the common language, the complementarity of the economic structures between the two countries and the high level of brand awareness in the country, Mauritius should be considered as one of the first sub-Saharan countries with which the United States should strengthen its relation. Currently Mauritius imports more goods from China, India and the EU than from the United States. If the countries were engaged in a fully reciprocal bilateral relationship, the percent of trade with the United States would increase as U.S. goods would become more affordable. Mauritian exports do not threaten the United States manufacturing or agricultural base, and rather they complement U.S. suppliers. Seafood and sugar are the main agricultural exports both of which are limited in availability in the U.S. Further,

the export of apparel would not harm the U.S. apparel manufacturing which is almost entirely offshore already and supplied by China, Vietnam and Bangladesh. EML recommends that the U.S. consider strengthening further its economic and trade relation with Mauritius and providing the country with the most favorable treatment to establish a strong foothold and ally in Africa who can advance American strategic interests in the region.

Conclusion

Mauritius has positioned itself as a leader among the sub-Saharan Africa countries as an ideal location for investment despite its limitations due to size and population. It has become a leader in the region in exporting its business acumen and education to help other sub-Saharan African nations to upgrade their standards and adopt modern corporate social responsibility practices. Other AGOA beneficiary countries can learn from the policies put in place by Mauritius to become a U.S. supplier, taking advantage of the AGOA. We see the success of Mauritius as reflective of its commitment to remain a part of the global supply chain. EML has committed to Mauritius and is a large part of its export success. The trade imbalance in fact is not a threat to the United States because of the make-up of the products being exported and the complementarity of the two countries' economic structure. Until such time as U.S. made goods are more affordable, Mauritius will have to rely on other suppliers. The best way to reduce the cost of U.S. goods is to enter into a free trade agreement that will secure U.S. goods into the country. EML strongly supports the continued participation of Mauritius in the AGOA and urges the United States to begin entering into more permanent trade relations with countries that have demonstrated a level of maturity and readiness in undertaking high-level commitments required by the US. Securing key geopolitical partners in the Indian Ocean will also help the U.S. hedge the influence of rival powers in Africa and in the maritime trade lanes.