ACTIF

African Cotton & Textile Industries Federation

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Statement of Jaswinder Bedi
Chairman of the African Cotton and Textile Industries Federation
Before the U.S. International Trade Commission
Investigation on the African Growth and Opportunity Act
Investigation Nos. 332-542, 332-544, 332-545, and 332-546

Chairman Williamson, Members of the Commission, it is a pleasure to appear before you today to discuss the African Growth and Opportunity Act (AGOA). I am here today in my capacity as Chairman of the African Cotton and Textile Industries Federation (ACTIF), which is a trade association whose members come from the cotton, textile and/or apparel industries in 24 countries from all regions of Africa. Based in Nairobi, Kenya, ACTIF is the only pan-African organization that represents the full cotton-textile-apparel value chain. Accordingly, my testimony will focus on the AGOA apparel program.

In addition to serving as Chairman of ACTIF, I am also the owner of a vertically integrated manufacturer of textiles and apparel in Kenya. My company is one of the largest textile and apparel producers in Kenya, and we export to the United States under AGOA. So I will also be speaking from my own personal hands-on experience in manufacturing and exporting under AGOA.

Mr. Chairman, ACTIF has prepared a White Paper on renewal of AGOA. I will submit a copy of the full ACTIF White Paper for the record, and my testimony today will summarize the key points from the White Paper.

My testimony will be relevant to the AGOA Trade and Investment Performance Overview (Investigation No. 332-542), the AGOA Rules of Origin (Investigation No. 332-545), and indirectly to issues relating to South Africa (Investigation No. 332-546).

A. AGOA Has Been Hugely Successful.

From our perspective in the African textile and apparel sector, AGOA has been very successful. While AGOA can no doubt be improved, we believe it is critical that Congress act quickly to renew the current AGOA well in advance of its September 30, 2015 expiration.

During its first five years (2000-2004), AGOA had a transformative effect on the African textile and apparel sector, where an estimated 300,000 new direct jobs and perhaps twice that number of indirect jobs in support sectors were created as a new industry was developed across Africa. U.S. apparel imports from Africa almost tripled between 2000 and 2004. The lives of an estimated 5-10 million Africans were improved by AGOA as it helped build the regional cotton-textiles-apparel value chain.

But AGOA's success began to fade with the expiration of the Multi-Fibre Arrangement (MFA) system of quotas on January 1, 2005, pursuant to the WTO Uruguay Round Agreement on Textiles and Clothing. The infant AGOA apparel industry was for the first time exposed to unfettered competition from massive and well-established Asian apparel producers, many of which were state-subsidized or even government owned. Literally scores of mostly Chinese-owned apparel factories closed across Africa, and were reopened in China, Bangladesh, Cambodia and Vietnam. There was a wholesale transfer of more than 100,000 apparel jobs from Africa to Asia. By 2010, U.S. apparel imports from Africa had fallen by more than half from a 2004 high of $1.8 billion to just $789 million in 2010.

During the past several years, important policy initiatives have been undertaken by local African governments and regional economic communities, in active collaboration with ACTIF, the U.S. Agency for International Development (USAID) and various other international development entities, to enhance the competitiveness of the African textile and apparel industry. In response to these initiatives, by 2012 U.S. apparel imports from Africa had begun to stabilize. With the renewal in August 2012 of the critical AGOA third-country fabric provision, there was reason for optimism that the African apparel industry created by AGOA might prosper once again.

But to achieve this result and save the estimated 300,000 apparel sector jobs that are dependent upon AGOA, it is essential that Congress act promptly to extend AGOA well in advance of its September 30, 2015 expiration.

B. Congress Should Promptly Renew AGOA for a Sustainably Long Period.

1. Investors Require Stability and Predictability.

One of the challenges that has prevented AGOA from accomplishing all that its creators hoped for is the fact that heretofore AGOA has been authorized for only a few years at a time. The current authorization of AGOA expires in just 21 months on September 30, 2015. The previous short-term renewals have deterred investors by compounding the risks already inherent in investing in Africa. Most investors require at least a ten-year horizon to amortize a major investment, such as those necessary to build a new textile factory. The fact that Congress has never yet extended AGOA for at least the minimum of ten years required by investors is one of the major reasons the upstream textile production originally envisioned by the creators of AGOA has not yet materialized. Accordingly, I strongly recommend that AGOA should be renewed for 15-20 years so that we can attract major new investments to the textile sector in Africa.

2. The AGOA Third-Country Fabric Rule of Origin Should Be Extended for the Full Term of AGOA's Renewal.

Without question, the most important rule of origin under AGOA is the so-called "third-country fabric" rule of origin, which allows apparel manufacturers in less developed country (LDC) AGOA beneficiaries to utilize yarns and fabrics from any origin. More than 95% of AGOA apparel imports are under the third-country fabric rule of origin. Because U.S. apparel buyers typically mandate the type and source of the yarns and fabrics to be used in making their garments, it is essential to be able to utilize the specified inputs in order to get the U.S. orders. Although ACTIF fully supports the long-term goal of developing a vertically integrated textile-apparel value chain in Africa, the failure to authorize AGOA for a sustainably long period up to this point has prevented this from happening. Until sufficient upstream textile production capacity has been developed, it is critical that AGOA continue to allow African apparel producers to utilize the yarns and fabrics required by their U.S. buyers. Accordingly, it is essential that the third-country fabric provision be extended for the full term of the renewal of AGOA.

From the perspective of the African textile and apparel industry, we do not believe any changes to the AGOA rules of origin are necessary, other than the extension of the third-country fabric rule of origin.

3. Congress Should Renew AGOA Well in Advance of the September 30, 2015 Expiration.

Experience has demonstrated that it is critical that Congress take action to renew AGOA well in advance of the current expiration scheduled for September 30, 2015. Although measures to renew the AGOA third-country fabric provision were introduced in 2010 and 2011, Congress delayed taking action until August 2012, literally just weeks before the provision was set to expire on September 30, 2012. Because U.S. apparel buyers typically place their orders up to nine months in advance, uncertainty over the fate of this critical provision forced U.S. apparel buyers to begin shifting their orders out of Africa to Asia beginning in early 2012, *i.e.*, nine months in advance of the expiration. U.S. apparel imports Africa fell off sharply, down by -12% during April-December 2012. African apparel producers were forced to lay off tens of thousands of workers.

The negative impact on Africa would be much, much worse if Congress were to delay taking action to renew the overall authorization of AGOA. Such delay would send all the wrong signals to both buyers and investors. Rather, Congress should act promptly to renew AGOA well before its September 30, 2015 expiration date, preferably before the end of 2014.

4. Congress Should Reiterate AGOA's Policy of Encouraging Regional FTAs with the AGOA Beneficiaries.

Since its original enactment in 2000, AGOA has encouraged the U.S. Administration to negotiate free trade agreements (FTAs) with AGOA countries as appropriate. Thirteen years later, the United States still has no FTAs with Africa. ACTIF believes the time has come for new FTA negotiations between AGOA countries and the United States. In order to reinforce ongoing efforts to encourage regional integration, ACTIF believes such FTAs should be negotiated with existing African Regional Economic Communities (RECs).

There has been considerable discussion of the possibility of "graduating" more advanced AGOA beneficiaries. So long as such "graduation" results in an FTA with ongoing market access comparable to AGOA, we have no objection to graduation. However, I must emphasize the critical importance for purposes of regional integration of continued "cumulation" between AGOA beneficiaries and any "graduated" former beneficiaries. Nothing would be more detrimental to African regional integration than to remove the more advanced countries from the supply chain.

5. AGOA Should Create Additional Incentives for U.S. Buyers To Source Apparel from Africa.

When AGOA was originally enacted, it provided for quota-free and duty-free incentives for U.S. buyers to source apparel in Africa. But when the MFA quotas expired in 2005, AGOA's incentives were cut in half, and as noted above, the result was devastating as AGOA apparel exports to the United States fell by 55%.

ACTIF suggests that new incentives should be created for U.S. buyers to source apparel from Africa to offset the loss of the quota-free preference. For example, Congress could instruct USAID to expand the activities of the five African Competitiveness Hubs to include more assistance aimed at attracting U.S. apparel buyers to Africa.

C. Conclusion

AGOA has made a profound impact on the economic development of Africa, but that impact has been undermined by changes in the global trade environment since 2005, especially the expiration of the MFA. The challenge to AGOA has been compounded by Congress' practice heretofore of renewing AGOA for only a few years at a time. If Congress delays renewing AGOA, its positive contribution to the development of Africa will be seriously undermined. But prompt renewal of AGOA on the terms suggested herein will maintain AGOA's positive role in the reduction of poverty and the creation of economic opportunity for the poorest and least developed region of the world.

The members of ACTIF express their profound gratitude to the United States for AGOA and urge the United States to extend the absolutely critical policies that are enshrined in AGOA. I would be happy to answer any questions.