# IMPACT OF AGOA

# ON THE

# S.A. CLOTHING & TEXTILE SECTORS

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**FOR ACTIF**

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## INTRODUCTION

The objective of this report is to provide ACTIF with an analysis of the impact and relevance of AGOA to the clothing and textile sectors in South Africa in preparation for the AGOA Review scheduled for August in Washington.

Statistical data is provided on the current size & composition of the apparel & textile sectors in South Africa and recent trends. (**Appendix 1**)

The export data provided tracks the pattern of exports to the U.S. since the introduction of AGOA relative to the total exports of apparel from South Africa to all countries. (**Appendix 2**)

The Export Council for the Clothing Industry representing South African apparel exporters has presented position papers at every AGOA review to date to motivate changes that would ensure that AGOA achieved its stated objectives. **Appendix 3** is the position paper submitted to the S.A. Department of Trade & Industry for the AGOA Review in 2009. The current proposals support the ACTIF position.

## IMPACT AND RELEVANCE OF AGOA FOR THE CLOTHING INDUSTRY IN S.A.

Apart from a short lived surge of exports to the U.S. following the introduction of AGOA in 2001, AGOA has not had a lasting positive impact on the clothing & textile industries in South Africa.

Whilst there were a number of other factors that negated the impact of AGOA, the excessively onerous yarn-forward rules of origin was arguably the most pressing reason for AGOA not achieving its full potential in South Africa.

The close proximity of Lesotho & Swaziland with its more favourable rules of origin coupled with lower labour costs resulted in at least 3 major S.A. exporters re-locating production to Lesotho & Swaziland.

At every AGOA review since its inception, the Export Council for the Clothing Industry, representing apparel exporters, has lobbied for a change to the rules of origin to allow for access to 3rd country fabrics.

Unfortunately up until 2008, this was opposed by South African Textile Federation which led the Department of Trade & Industry in the absence of consensus to accept the status quo.

Faced with the reality of 20 textile mills having closed since 2003 and the almost total loss of the U.S. apparel export market, the S.A. Department of Trade & Industry recognised that the yarn forward rule of origin had not benefited either the textile sector or the apparel sector. At the AGOA Review in Nairobi in 2009, the S.A. Minister of Trade & Industry, Dr. Rob Davies, requested the U.S. to amend the rules of origin to allow S.A. apparel exporters to have access to 3rd country fabrics. This remains the last communicated official position of the Department of Trade & Industry

As indicated, the onerous rules of origin were not the only reasons for AGOA not resulting in a rise in exports and increase of employment.

As a result of South Africa's isolation prior to 1994, the South African clothing industry was not export oriented focusing primarily on servicing the local market. Exports of apparel were mainly to the E.U. The U.S. actually applied sanctions against South Africa up until 1994. South Africa was granted AGOA eligibility on 7 March 2001.

In understanding the rise in exports of apparel in the period 2001 to 2003 and the subsequent decline, it is important to note factors other than the introduction of AGOA that played a part in the rise & decline of exports.

South Africa's re-admission to global markets had created interest from potential buyers. The MFA was still in force and South Africa's currency weakened to a point where it was seriously undervalued.
The S.A. Government's monetory policy favours a floating currency. The real value of the Rand is considered R7.50/US$1 and with a floating currency a fluctuation of 10% up or down could be considered normal. Based on this the Rand could fluctuate between R6.75 and R8.25/US$1.

In 2001 the Rand reached its weakest point at R13.85/US$1 coinciding with the introduction of AGOA. By 2005 it reached its strongest point of R5.92/US$1 and throughout 2005/2006 averaged R6.00-R6.50/US$1.

Thus AGOA was introduced when conditions were ideal for the rapid growth of exports of apparel to the U.S. A number of sourcing companies established offices in South Africa, namely Li & Fung, AMC, Mast Industries, Linmark etc. to promote exports mainly to the U.S.

Unfortunately the seeds were already sown for the subsequent decline. The MFA fell away in January 2005, the currency appreciated significantly and has remained subject to volatility, and the onerous rules of origin applicable to South Africa, namely a yarn-forward rule meant that apparel manufacturers were not able to meet the fabric needs of U.S. buyers.

The uncertainty regarding the expiry of AGOA also played a role.

The Export Council for the Clothing Industry in S.A. estimated that 12 000 additional jobs were created in 2001/2 as a direct result of AGOA, but as many as 10 000 had been lost after 2004. All the sourcing companies closed their local offices.

**WHAT WOULD THE IMPACT BE ON THE S.A. CLOTHING & TEXTILE SECTOR IF AGOA WAS NOT EXTENDED BEYOND 2015?**

As can be seen from the export statistics, exports of apparel have declined to such an extent, both to the U.S. and E.U. markets, that the S.A. clothing industry has returned to its pre-2001 position of being largely focused on servicing the local market and, with a few exceptions, is not export oriented even with the Rand at R7.70/US$1.

The South African clothing industry would not lose many jobs as a direct result of the expiry of AGOA. A change to the rules of origin could however result in new interest in exploring export opportunities. In this event the possibility of an expiry of AGOA in 2015 would almost certainly kill such interest and therefore a change to the rules of origin goes hand-in-glove with a meaningful extension beyond 2015 say to 2025.

With regard to a more permanent arrangement for AGOA, South Africa is in a different position to the rest of sub-Sahara Africa in that the South African government has engaged with the U.S. with a view to entering into discussions for a preferential market access arrangement. However the talks dead-locked and by mutual agreement are off the table.

During a recent meeting held in Johannesburg with Florie Liser, delegates from Business Unity S.A., an employer representative body, reported that they had picked up a hint from Florie Liser that the U.S. may not wish to extend AGOA beyond 2015 for South Africa. Given the dead-locked position on an SA/US PTA referred to above and other developments at the G20 coupled with South Africa's growing relationship with BRIC, it is not surprising that the U.S. may be unwilling to extend AGOA for South Africa. This is of concern. Although the clothing industry would not be adversely affected, there are a number of other sectors such as the automotive sector, that would be seriously affected.

## CONCLUSION

Although the level of interest in export of apparel and textiles is currently low, a change to the rules of origin to allow for access to 3rd country fabric could lead to an increase in interest.

As previously mentioned, an extension beyond 2015 goes hand-in-glove with this. Any incentive to encourage U.S. buyer interest in the region would be welcomed.

The inclusion of textile products could open doors for some of S.A.'s textile mills specializing in technical fabrics for the automotive industry. One worsted woollen mill was successfully exporting to the U.S. and would benefit from the inclusion of textiles.

AGOA remains important for a number of other industries in S.A. apart from the apparel sector.

For these reasons, the S.A. clothing & textile sectors would support ACTIF's position.

Business Unity South Africa will be taking a broad industry delegation to the U.S. to lobby for changes to AGOA. Although apparel & textiles are a very small part of South Africa's total AGOA exports, the S.A. clothing & textile industry will be represented by Ralph Roytowski, a past director of the Export Council for the Clothing Industry, on this delegation.

In summary, the S.A. Department of Trade & Industry and the S.A. clothing & textile sectors are aligned on the key changes to AGOA required, a position which largely mirrors and supports the ACTIF position.

**APPENDIX 1**

## COUNTRY SPECIFIC DATA – SOUTH AFRICA

| NUMBER OF COMPANIES | Dec 04 | Dec 05 | Dec 06 | Dec 07 | Dec 08 | Dec 09 | March 10 |
|---|---|---|---|---|---|---|---|
| SPINNERS | N.A. | N.A. | N.A. | N.A. | N.A. | 7 | 7 |
| KNITTERS | N.A. | N.A. | N.A. | N.A. | N.A. | 11 | 11 |
| WEAVERS | N.A. | N.A. | N.A. | N.A. | N.A. | 17 | 17 |
| DYERS / FINISHING / OTHER | N.A. | N.A. | N.A. | N.A. | N.A. | 8 | 8 |
| APPAREL MANUFACTURERS | 1169 | 1138 | 1048 | 1038 | 1052 | 1025 | 1001 |
| **EMPLOYMENT** | | | | | | | |
| APPAREL MANUFACTURERS | 97958 | 83081 | 74456 | 71689 | 67330 | 61941 | 58980 |
| TEXTILE MANUFACTURERS | N.A. | N.A. | N.A. | 55200 | 51700 | 47500 | N.A. |

(Source: National Bargaining Council for the Clothing Industry – TEXFED)

## APPENDIX 2

# APPAREL EXPORT STATS

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | MARCH 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **TOTAL EXPORTS TO ALL COUNTRIES** | R1916,7m | R2571,6m | R2249,1m | R1562,5m | R1000,4m | R 834,6m | R 688,5m | R732m | R600,2m | R 145m |
| **(Source: CloTrade)** | | | | | | | | | | |
| **EXPORTS TO U.S. UNDER AGOA** | $ 30,6m | $ 84,7m | $ 126,2m | $ 114,7m | $ 61,7m | $ 41,8m | $ 21,5m | $ 15,9m | $ 10,1m | $ 1m |
| **(Source: U.S. International Trade Commission)** | | | | | | | | | | |