TEXTILE PREFEASIBILITY STUDY

Preliminary Findings

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BACKGROUND

Over the past several years, there has been a general overall improvement in the external terms of trade for many Eastern, Western, and Southern Africa countries. There has been a conscious effort to attempt to liberalize tariff structure and price controls for specific textile articles such as silk, wool, cotton, and synthetics as well as thread and yarn from countries such as Mali, Kenya, Botswana, Lesotho, and Swaziland.

Fintrac (a Division of RCG/Hagler, Bailly, Inc.) is conducting a prefeasibility study to identify existing textile tariffs, key benefits, and major restrictions relative to the exports of textiles from Africa to Europe, Africa to the U.S., and from the U.S. to Europe.

Though this prefeasibility study commenced less than 5 days ago, it was essential we present to the U.S. Agency for International Development, Market Development and Investment/Africa Bureau very cursory findings by June 6, 1988 -- the detailed study will be completed by June 30, 1989.

It has been noted that textiles and apparel have received more comprehensive and persistent protection than any other industrial sector, even though the original rationale for their special protection more than two decades ago was to provide temporary relief so that the industries could adjust and become sufficiently competitive to face international competition on their own. Today, industry and labor groups are pressing for still higher tariffs, and, in an environment of massive trade deficits, there is a greater chance than at any other time in the postwar period that the U.S. and Europe will enact restrictive import quotas. The consequences could include the collapse of the international Multi-Fiber Arrangement (MFA) governing trade in textiles and apparel, and perhaps of the new Uruguay Round of multilateral trade negotiations as well.

Basically, there are three policy options for textile trade: to increase the severity of protection immediately and decisively; to drift more slowly toward tighter protection under endless renewals of, for example, the MFA; or to reverse this process and set a firm timetable for gradual liberalization of the sectors.

There has been a dramatic rise in imports of textiles from the developing countries especially from the 25 major exporting nations (e.g., $2.8 billion in 1973 to $8.7 billion in 1984) as shown in Exhibit 1. However, Africa at large and the particular countries of Mali, Kenya, Botswana, Lesotho, and Swaziland are absent from this list of the top 25 developing-country suppliers of textiles. Yet, open trade in textiles could be especially important to many low-income countries in Africa. These sectors are among the few for which the unsophisticated level of industrial production in these countries permits exports. While African nations typically do not face quotas today, the scope for future growth of their exports may be constrained by the overall regime of greater textile and apparel protection, which may discourage investment for export expansion by posing the threat of quota imposition if exports do rise substantially.

POINTS OF REFERENCE

Based on our cursory analysis and discussions with representatives from the Textiles Division of U.S. International Trade Commision, the Chief Textile Negotiator for the Office of the U.S. Trade Representative, the Textile and Apparel Division of the U.S. Department of Commerce, the International Trade and Finance Division of the Economic Commission for Africa, the Trade Division of the Economic Commission for Europe, and the International Trade Centre - UNCTAD/GATT,[1] we have been able to preliminarily identify the major international trade and textile considerations that impact the selected Eastern, Western, and Southern African countries of Mali, Kenya, Botswana, Lesotho, and Swaziland.

All five countries are members of Africa-Caribbean-Pacific (ACP)/LOME Convention and thus qualify for preferential entry to the European Community. In addition, all five countries belong to the General System of Preference, which occurs when an exporting ACP country meets any two of the following criteria: it produces raw material, it cuts and sews textiles, and/or, it prints textiles.

1] UNCTAD/GATT: United Nations Conference on Trade and Development/General Agreement on Tariffs and Trade

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Exhibit 1

25 Major Exporting Nations

China
South Korea
Taiwan
Hong Kong
Singapore

Pakistan
Bangladesh
India
Sri Lanka
Thailand
Indonesia
Philippines

Haiti
Dominican Republic
Costa Rica
Colombia
Peru
Brazil
Argentina
Uruguay

Greece
Portugal
Spain
Turkey
Yugoslavia

Source: *The Future of World Trade in Textiles and Apparel*, Institute for International Economics: Washington, DC, 1987.

MAJOR TEXTILE TARIFFS

The Multi-Fiber Arrangement (MFA), under the jurisdiction of the GATT in Geneva, is a crucial textile trade and textile tariff agreement which regulates the entire textile industry. The basic objective of this agreement is to achieve the expansion of trade, the reduction of barriers, and the progressive liberalization of world trade in textiles products. It's purpose is to regularize the orderly marketing of textiles and fibers from least developed countries to, for example, the European Community and the United States. However, the effect of the MFA over the past decade has been to restrict imports to a 28 per cent increase compared to the previous decade's 75 per cent increase. The current MFA was promulgated on July 31, 1986 with a five year duration period. The MFA is a complex textile trade/tariff policy which is constantly being amended and altered -- it is currently being reviewed in the Uruguay Round; no major changes are considered likely.

The Generalized System of Preferences (GSP) is another major tariff agreement that outlines the requirements for importing articles duty-free under the Trade Act of 1974 and for modifying the list of articles and countries eligible for duty-free treatment. Currently, it grants preferential duty-free entry to 136 beneficiary countries and territories. The selected five African countries previously referenced fall under its guidelines. The current GSP has been in effect since July 1, 1988 (though the basic GSP was initially developed in the late 1970's). GSP issues are reviewed within the interagency trade policy committee framework coordinated and chaired by the Office of the U.S. Trade Representative and is updated on a yearly bases.

The Harmonized Tariff System (HT) is a relatively new uniform international nomenclature which the United States has negotiated with its major trading partners. It has facilitated international textile trade by eliminating the problems resulting from each country's use of a different classification system. The current HT has been in effect since January 1, 1989. Under the HT the African countries of Kenya, and Swaziland are designated as Beneficiary Developing Countries (BDC) for the purpose of the Generalized System of Preferences (it is important to note that the GSP and HT work in tandem to ensure trade nutrality). The criteria the GSP utilizes, on a case by case basis, to determine what countries can be designated as Beneficiary are:

- The country's general level of development
- Its competitiveness in the particular product
- The country's practices relating to trade, investment and worker's rights
- The overall economic interests of the U.S., including the effect continued GSP treatment would have on the relevant U.S. producers, workers and consumers.

The classification of a country as a BDC entitles that whenever an eligible article is imported into the customs territory of the U.S. directly, it shall be entitled to receive a special lower tariff than the general tariff.

However, the African countries of Botswana, Lesotho, and Mali have a slight advantage in the HT since the GSP classifies them a Least-Developed Beneficiary Developing Countries (LDBDC). Thus, whenever an eligible article is imported into the customs territory of the U.S. directly from one of the countries designated as a LDBDC, it shall be entitled to receive the duty-free treatment without regard to the limitations on preferential treatment of eligible articles.

TEXTILE ARTICLES/MAJOR SUBARTICLES

Preliminary findings indicate that there is no singular rate of duty for each of the textiles involved from the respective African country. The tariff imposed is based on the article (e.g., silk, wool), its respective subarticle (e.g., raw silk, woven wool) and the rates of duty imposed per country given its GSP standing. It is important to note that there are over 10 subarticles for each article and thus, the export is impacted by varying rates of duty. Our cursory findings show that only the textiles of silk, wool, cotton, and synthetics are considered articles, whereas thread and yarn are subarticles within each article (e.g., article: wool; subarticle: woolen yarn).

Below is presented a very basic sampling (which by no means is totally exhaustive) of the duty imposed on each article and selected subarticle be it a percentage of total property/product value and/or a monetary charge on a per kilogram basis.

Article/Subarticle	Duty
• SILK (Article)	
(Subarticle)	
- Raw silk	Free
- Woven fabrics of silk or silk waste,other	7.8%
• WOOL (Article)	
(Subarticle)	
- Wool not carded or combed, shorn wool: unimproved wool	Free
- Yarn of combed wool, not put up for retail sale	9.0%
• COTTON (Article)	
(Subarticle)	
- Cotton carded and combed	5.0%
- Cotton yarn(other than sewing thread) put up for retail sale: containing 85% or more by weight of cotton	5.0%
• SYNTHETICS (Article) [2]	
(Subarticles)	
- Synthetic filament yarn (other than sewing thread), not put up for retail sale including synthetic monofilament of less than 67 decitex: High tenacity yarn of nylon or other polyamides: Single yarn	10.0%

2] Under HT, Synthetics is a subcategory of MAN-MADE FIBERS. Man-made fibers are staple fibers and filaments of organic polymers produced by the manufacturing process of either:

A) Synthetics - by polymerization of organic monomers, such as polymides, polyesters, and polyurethanes or polyvinyl derivatives.

or

B) Artificial by chemical transformation of natural organic polymers, such as viscose rayon, cellulose acetate, cupro and alginates.

Article/Subarticle	Duty
- Woven fabrics of artificial filament yarn including woven fabrics: Printed: Mixed mainly or solely with wool or fine animal hair: containing 36% or more by weight of wool or fine animal hair	$.485/kg + 38%

As can be ascertained, rates of duty are complex and multifaceted and must take into account a vast array of subarticles so as to be fully responsive to the required tariff structure impacting each of the five African countries and their products.