African Growth and Opportunity Act:

Export Opportunities for Nigerian Manufacturers In Textile Based Sewn Products

Part I: The Assessment

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Executive Summary

The purpose of this study was to examine the opportunities for the development of a textile and apparel manufacturing export sector in Nigeria, using the benefits of the African Growth and Opportunity Act. In the Assessment, the legislation is explained and highlighted as it applies to textiles and apparel. Trade statistics and trends are examined as they pertain to Sub-Saharan African (SSA) countries. Even though market access is limited by a quota, within the first year and perhaps the second, African countries will not fulfill the entire quota, leaving opportunities open for new countries to participate. A case study on the evolution and condition of the apparel industry in Madagascar helps to demonstrate that countries like Nigeria can develop significant export volumes and jobs if they are able to create favorable political and investment climates. An on-site survey of Nigerian textile and apparel companies was performed by two US-based apparel industry experts. Additionally, an analysis of Nigeria's strengths and weaknesses provides a conceptual framework for actions that need to be implemented.

Results of this study show that while Nigeria has a strong base of textile manufacturers supported by cotton growing capacity, it has no export apparel manufacturing capability. However, the country has an EPZ structure in place, with two zones in current operation, and has other strengths which lend themselves to the development of a successful apparel sector. There is a great deal of enthusiasm and interest among the textile manufacturing executives and government officials for the development of an apparel manufacturing industry. Nigeria needs to complete requirements of the US Customs Service to obtain a visa before it can export apparel through the AGOA access. Issues related to infrastructure must be addressed in order to attract the interest of local and international investors.

The Action Plan outlines what USAID can do now to assist the Nigerian government in its efforts to create an apparel manufacturing export industry. A more specific plan of initiatives addresses both short and long term needs.

Introduction

Purpose
The purpose of this study is to examine the opportunities for the development of a textile and apparel manufacturing export sector in Nigeria, using the benefits of the African Growth and Development Act. The legislation is explained and highlighted as it applies to textiles and apparel. Trade statistics and trends are examined as they pertain to Sub-Saharan African (SSA) countries. A case study on the evolution and condition of the apparel industry in Madagascar is presented--its lessons for Nigeria are emphasized. Additionally, an on-site survey of Nigerian textile and apparel companies was performed by two US-based apparel industry experts. Their analysis, conclusions, and recommendations are included in this report. This project was undertaken by a team of competitiveness professionals from J.E. Austin Associates, Inc. and Chemonics, Inc. of Washington, DC. Funding for this project was provided through the US Agency for International Development.

Apparel Manufacturing
Apparel manufacturing is known as a "gateway" industry in that it is often one of the first manufacturing sectors to flourish in newly industrialized countries. Improvements in communications and transportation technologies have allowed global migration of capital toward regions where there is abundant low-cost labor and sufficient infrastructure to develop world-class sewn products manufacturing. Historically, countries have demonstrated significant industrial development with scant original capacity. A state-of-the-art apparel sector does not have to grow from a traditional local industry that served domestic markets. However, workforce knowledge of craftsmanship, tailoring, embroidery, knitting and other special skills can be transferred into a manufacturing setting and represent an important element of competitive advantage. With the establishment of free trade zones and attractive competitive conditions, global retailers, brand marketers, and apparel manufacturers will consider investing in new sourcing locations, thereby creating world-class manufacturing sectors in relatively short periods of time.

In the past thirty years, hundreds of thousands of American and European apparel manufacturing jobs have shifted to lower cost countries. Large multinational apparel companies are abandoning much of their domestic-based manufacturing in pursuit of sophisticated sourcing structures that optimize their product development and marketing skills. At any one time, a familiar brand company such as The Gap or Nike may be sourcing goods through a network of hundreds of factories in dozens of countries. Diversity in regions and merchandise mix reduces risk. Apparel executives apply a wide range of criteria to select the ideal combination of sourcing options for their delivery and margin goals. They seek countries with shorter shipping times, low political risk, favorable currency exchange, high labor productivity, and low cost structures. Forms of ownership vary, from simple contracting per order to joint ventures and wholly owned, offshore subsidiaries.

As a link in a consumer-based supply chain, apparel retailing has become more capital intensive, requiring sophisticated technology to electronically coordinate products from the commodity raw material stage to the store shelf. Flexibility and efficiencies in manufacturing are critical for success. The world has enjoyed an excellent model of apparel manufacturing capabilities in Asia, due, in part to a unique financial structure and vertical integration within family-owned conglomerates. Asian producers aggressively developed their full package capabilities by adopting pre-production technology and taking the product from design concept to shelf ready. Eventually, most global apparel manufacturing will have to evolve to this level with piece goods, trims, and packaging financed by the manufacturers.

US Retailing
In the US, consolidation at the retail level is driving change within apparel manufacturing. Recent research demonstrates that 68% of apparel is sold by the top five retailers. Another 30% is sold by the next 24 largest apparel retailers. With the exception of uniforms, nearly all of the apparel sold in the US is

thus handled through 29 retailers. This concentration of power puts pressure on the manufacturing sector to achieve improved cost and timing efficiencies.

Consumer expenditure surveys indicate that Americans are spending lower percentages of their incomes on apparel in a decidedly downward trend over many years. The American industry has seen recent price deflation in apparel, in addition to lower profitability. All of these factors contribute to a cost efficiency manufacturing and logistics model that is necessary to sustain consumer apparel needs within price resistance levels. Large US retailers have embraced the cost benefits of sourcing from AGOA beneficiary countries, despite the frustrations of dealing with newly emerging industrial sectors.

AGOA Success

Apparel manufacturers have spent the last forty years chasing cheaper labor around the globe. In doing so, they have applied technologies to achieve remarkable efficiencies and a highly coordinated supply network, and have supplied hundreds of thousands of jobs in poor countries. It is now Africa's turn to participate in the global sewn products industry.

Several countries in the SSA region have benefited from AGOA, some quite dramatically. Some of the investments that AGOA has encouraged are presented in the 2002 AGOA Report to Congress and include:

- Increased investment valued at $12.8 million in Kenya, including the establishment or reopening of at least nine factories, where new employment has generated at least 20,000 jobs
- The opening of eleven new factories and the expansion of eight additional ones in Lesotho, resulting in the creation of 15,000 new jobs, allowing manufacturing employment in Lesotho to exceed government employment for the first time
- The creation of at least 4,350 jobs in Malawi
- Investments of over $78 million in Mauritius
- New and planned investment in Namibia in the apparel and textile sector alone has topped $250 million, creating an estimated 8,000 jobs over the next five years, and 18,000 jobs over ten years;
- The opening of at least eight new factories in Swaziland, creating 11,000 jobs
- A planned $20 million foreign investment in a Ugandan mill that will employ 500 people and benefit local agricultural producers

The formula for success involves opening doors to foreign investors and their professional expertise, while providing a streamlined mechanism to assist new operations and domestic entrepreneurs. Functional export processing zones are an absolute requirement, along with adequate infrastructure and uninterrupted utilities. Everything that government officials can do to improve the efficiency of the roads, ports, and communications will help attract more investment and more jobs. AGOA countries are competing to use the allotted quota. Those countries that demonstrate leadership and seek to create a textile-based sewn products industry with higher value-added products will benefit the most.

Summary of AGOA Provisions for Textiles and Apparel

Source: Office of the United States Trade Representative, May 18, 2002

The African Growth and Opportunity Act (AGOA) provides for duty free and quota free access to the U.S. market without limits for apparel made in eligible Sub-Saharan African countries from U.S. fabric, yarn and thread. It also provides for substantial growth of duty free and quota free apparel imports made from fabric produced in AGOA beneficiary countries. Apparel imports made with regional (African) fabric and yarn are subject to a cap which started at 1.5% of overall U.S. apparel imports, growing to 3.5% of overall imports over an 8 year period. The cap is measured in square meter equivalents (SME's), and has no dollar equivalent.

In addition, there is unlimited duty free access to the U.S. market for apparel made in Sub-Saharan Africa from yarn or fabrics in short supply in the U.S. Examples include silk, linen, cotton velveteen, corduroy, batiste fabrics, certain lightweight high thread count broad woven fabrics for men and boys' shirts and fine count circular knit fabric for certain apparel. Handmade, hand loomed and folklore products are also eligible for unlimited duty free access to the U.S. market, but must be certified by the beneficiary country and U.S. consultations.

Although the intention of the AGOA legislation was to include knit-to-shape sweaters, U.S. Customs has refused preferential treatment to sweaters from Mauritius and Madagascar. The AGOA legislation pending in the U.S. Congress would implement a technical correction to address this issue.

Duty free shipments from Sub-Saharan Africa have not been close to reaching the quotas in the past, partly due to delays in implementation of the law and the lack of textile capacities located in Africa. Proposals are now in Congress to remove the cap for products made with African fabric. This would help to boost textile investment in Southern Africa.

Under a special rule for lesser developed beneficiary countries, they will enjoy duty free access for apparel made from fabric originating anywhere in the world until September 30, 2004. Apparel imported under this special rule is counted against the cap. Of the 35 approved countries for AGOA, the following are not eligible for lesser developed country benefits – Botswana, Gabon, Mauritius, Seychelles and South Africa.

These textile and apparel benefits are not automatic to AGOA eligible countries. Countries have to establish effective visa systems to prevent illegal transshipment and the use of counterfeit documentation. The U.S. Government reviews the applications and approves those countries that have met the criteria. As of May 18, 2002, the following seventeen countries have been approved for the textile and apparel benefits of AGOA.

AGOA Countries Eligible for Textile and Apparel Benefits

Botswana (August 27, 2001)	Cameroon (March 1, 2002)	Ethiopia (August 2, 2001)
Ghana (March 20, 2002)	Kenya (January 18, 2001)	Lesotho (April 23, 2001)
Madagascar (March 6, 2001)	Malawi (August 15, 2001)	Mauritius (January 19, 2001)
Mozambique (February 6, 2002)	Namibia (December 3, 2001)	Senegal (April 23, 2002)
South Africa (March 7, 2001)	Swaziland (July 26, 2001)	Tanzania (February 4, 2002)
Uganda (October 24, 2001)	Zambia (December 17, 2001)	

Trade Provisions of African Growth and Opportunities Act (AGOA)

**Apparel Cut and Assembled in Sub-Saharan Africa,
Made from U.S. Fabric Using U.S. Yarn / Thread**

Apparel made from U.S. fabric, made from U.S. yarn, have duty-free and quota-free access to the U.S. market. The entire Cut-Make-Trim (CMT) process can be done in Sub-Saharan Africa.

**Apparel Assembled in Sub-Saharan Africa,
Made from U.S. Fabric, Using U.S. Yarn, Cut in the U.S.**

There is unlimited duty-free access to the U.S. market for apparel assembled in Sub-Saharan Africa but cut in the U.S. from U.S. made fabric, made from U.S. yarn. All assembly and finishing operations can take place in Sub-Saharan Africa.

Apparel Made from Fabrics or Yarn Not Available in the U.S. in Commercial Quantities

There is unlimited duty-free access to the U.S. market for apparel wholly assembled in Sub-Saharan Africa using fabrics that appear on the NAFTA Short Supply List. The list includes silk, linens and some shirting fabrics.

Apparel Assembled from Fabric Made in Sub-Saharan Africa Using Either U.S. or Sub-Saharan Yarn

Apparel assembled in Sub-Saharan Africa will be duty-free if the fabric is manufactured using either U.S. or Sub-Saharan yarn. The yarn and fabric can be supplied from any Sub-Saharan country even if the products are manufactured in a different Sub-Saharan country. However, there is a quota on the use of this duty-free benefit. The quota, or Tariff Preference Level (TPL), is capped in the first year to 1.5% of the total value of all apparel imports into the U.S. (estimated at US$800 million). The cap will increase annually, up to 3.5%, at the end of year eight. The cumulative value of duty-free exports guaranteed under this provision is estimated at US$15 billion over eight years.

**Apparel Assembled in Sub-Saharan Africa,
Using Fabric from other – non Sub-Saharan Countries**

For those countries classed as Less Developed Countries (LDCs), that is having per capita income below US$1,500, there are special provisions for the first four years of the eight-year trade bill. Apparel assembled in Sub-Saharan Africa, made from fabrics produced in other countries (e.g. non U.S. and non-Sub Saharan African countries) have duty-free access to the U.S. market. These products are also subject to the limits under the TPL indicated above.

Of the 48 countries covered by the AGOA legislation, only six are not eligible for this benefit, as they are not classed as LDCs. They are Botswana, Gabon, Mauritius, Namibia, Seychelles, and South Africa.