APPENDIX K
SUB-SAHARAN AFRICA

Overview

Sub-Saharan Africa (SSA) is a relatively small supplier of textiles and apparel to the global market, accounting for less than 1 percent of world exports in 2001. However, SSA textile and apparel exports have been growing in recent years, particularly to the United States, largely reflecting duty-free and quota-free access to the U.S. market under the provisions of the African Growth and Opportunity Act (AGOA). SSA production and exports tend to be concentrated in a few countries: Mauritius, Madagascar, South Africa, Lesotho, and Kenya. Swaziland has recently increased production and exports, and other countries, such as Namibia, are in the process of making investments in new production to take advantage of AGOA eligibility.[1]

The majority of SSA sector production and exports consists of apparel. In 2002, U.S. textile and apparel imports from SSA consisted almost entirely of apparel. South Africa and Mauritius are the only SSA countries with an established textile sector. South Africa is the largest SSA exporter of textiles; principal markets include the European Union (EU), the United States, and other African countries. Other countries with textile capacity include Madagascar, which has a fully integrated supply chain for producing trousers from heavy-weight fabrics, and Zambia, which exports cotton yarn to other SSA countries.[2]

Notwithstanding its small share of world exports, the SSA region is an important source of apparel for a number of U.S. apparel companies. ***[3]***[4]

Products and Importance of Quotas

SSA apparel exports are concentrated in garments characterized by long production runs, low labor content, and few styling changes, such as basic trousers, T-shirts, sweaters, and woven shirts. U.S. imports of such basic products from major suppliers are highly constrained by quotas. Apparel producers in South Africa, Mauritius, and Lesotho indicated that most apparel factories in these and other SSA countries were set up to benefit from quota-free access to the U.S. and EU markets.[5] These companies indicated that U.S. and EU quotas on cotton trousers and T-shirts from other supplying countries, especially those in Asia, have encouraged foreign investors to produce apparel in SSA.[6] Another expanding area of exports, particularly for South Africa, Lesotho, and Kenya, is manmade-fiber sportswear,

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[1] In mid-2001, the Malaysian group Ramatex announced that it would set up a fully integrated garment-manufacturing plant in Namibia. Jozef de Coster, "Opportunities for Textiles and Clothing in Sub-Saharan Africa," *Textile Outlook International*, Sept.-Oct. 2002, p. 166.

[2] Numerous companies in Mauritius, which imports cotton yarn, indicated that South Africa and Zambia were the main sources for yarn imported from SSA countries. Representatives of textile/apparel companies, interviews by USITC staff, Mauritius, Feb. 24-26, 2003.

[3] ***.

[4] ***.

[5] Industry representatives, interviews by USITC staff, Mauritius, South Africa, and Lesotho, Feb. 24-Mar. 8, 2003.

[6] Ibid.

for which major world suppliers are also subject to U.S. and EU quotas.[7] In addition, South Africa and, until 2002, Madagascar[8] have been expanding exports of wool suits, another quota-constrained product.

SSA apparel exports of quota products are significant. According to United Nations data, 72 percent of the total value of SSA apparel exports in 2001 consisted of outergarments, which includes shirts, sweaters, and pants. Cotton pants, knit tops, and cotton trousers accounted for 73 percent of the total value of U.S. apparel imports from SSA in 2002.[9] During 1997-2002, U.S. imports of these garments from SSA grew by 196 percent, compared to 86-percent growth in U.S. imports of other SSA apparel. Other apparel articles of which imports from SSA have been increasing include manmade-fiber shirts and pants, which accounted for 13 percent of the total value of U.S. apparel imports from SSA in 2002 and which increased by 550 percent during 1997-2002.

Important South African textile exports include filament yarns, cotton fabrics, and miscellaneous industrial textiles. The South African textile sector is protected by duties ranging from 7.5 percent to 30 percent ad valorem. A major concern expressed by this industry is that South African tariffs of 22 percent on cotton textiles would not be adequate to protect the sector from a surge in Chinese exports following the phaseout of quotas in 2005.[10]

Preferential Trade Programs–AGOA and the Cotonou Agreement

SSA countries receive preferential trade benefits from the EU under the Cotonou Agreement and the United States under AGOA. The Cotonou Agreement provides duty-free and quota-free access for textiles and apparel from Africa, Caribbean, and Pacific (ACP) countries originating in the region.[11] An exception is South Africa, which does not receive trade benefits under the Cotonou Agreement but has an FTA with the EU.

The AGOA, signed into law on May 18, 2000, authorizes preferential treatment for qualifying textiles and apparel from eligible countries in SSA for 8 years beginning on October 1, 2000. The textile and apparel trade benefits are available to 38 countries that the President designated as AGOA beneficiary countries, provided that these countries satisfy certain customs-related requirements, including adoption of procedures to prevent unlawful transshipments and the use of counterfeit documents. As of June 1, 2003, 19 countries had met these requirements.[12]

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[7] Industry representative, interview by USITC staff, South Africa, Mar. 3, 2003.

[8] The exports from Madagascar largely consist of production for firms in Mauritius.

[9] Data presented in this appendix on U.S. imports of textiles and apparel from SSA countries are official statistics of the U.S. Department of Commerce (the data are available on the website of its Office of Textiles and Apparel (OTEXA), found at *http://otexa.ita.doc.gov/catss.htm*).

[10] Representative of the Textile Federation of South Africa, interview by USITC staff, South Africa, Feb. 27, 2003.

[11] Some African countries, for example Lesotho and Madagascar, also qualify for additional trade preferences under the EU "Everything But Arms" program.

[12] Kenya, Mauritius, Botswana, Ethiopia, Lesotho, Madagascar, Malawi, Rwanda, South Africa, Swaziland, Uganda, Namibia, Zambia, Tanzania, Cameroon, Mozambique, Ghana, Senegal, and Cape Verde.

AGOA extends duty-free and quota-free treatment to apparel assembled in SSA countries from U.S.-origin fabrics, as well as specified quantities of apparel made from "regional fabrics" that are produced in SSA countries from U.S. or SSA yarns. Aggregate duty-free U.S. imports of apparel made in designated SSA countries from regional fabrics were initially subject to an annual "cap" that began on October 1, 2000, in a quantity equal to 1.5 percent of total U.S. apparel imports in the preceding 12-month period. That limit was to rise in each of the seven succeeding 1-year periods by equal increments to reach 3.5 percent of total U.S. apparel imports in the final 1-year period beginning on October 1, 2007; after that period, this benefit terminates. A special rule allowed apparel entered under the "cap" from "lesser-developed" SSA countries to be made of third-country fabrics or yarns (other than of U.S. or SSA origin) for the first 4 years, through September 30, 2004.[13] Under an amendment signed into law by the President on August 6, 2002 (the Trade Act of 2002), the scheduled "cap" on such regional fabric doubles. For the 12-month period that began on October 1, 2002, the import cap was increased from the original level of 2.1 percent to a new level of 4.2 percent of total U.S. apparel imports, rising in each of the five succeeding 1-year periods in equal increments to a level equivalent to 7.0 percent of U.S. apparel imports (rather than 3.5 percent) in the final 1-year period beginning on October 1, 2007. However, none of the new increase in the cap can be used for apparel made in lesser-developed SSA countries from third-country fabrics, so that under the amendment, the duty-free benefits for such apparel are kept at the original limits (2.1 percent and 2.4 percent for the 1-year periods beginning on October 1 of 2002 and 2003, respectively). In addition, the amendment allows Botswana and Namibia to use third-country fabrics or yarns when shipping apparel under the regional cap (a provision otherwise available only to lesser-developed SSA countries) through September 2004.[14]

In 2002, U.S. imports of apparel entered under AGOA amounted to 71 percent by value of total U.S. imports of textiles and apparel from SSA. Imports under AGOA using foreign fabrics amounted to 75 percent of AGOA apparel imports, while imports using regional fabric from U.S. or regional yarn accounted for 22 percent. Less than 0.5 percent of the AGOA apparel shipments was made from U.S.-cut fabric and yarn.[15] The largest AGOA suppliers included Lesotho (40 percent of AGOA apparel imports), Kenya (15 percent), Mauritius (13 percent), and Swaziland (9 percent). Mauritius and South Africa supplied 98 percent of AGOA apparel imports using regional fabrics.

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[13] The AGOA defines a lesser-developed SSA country as one that had a per capita gross national product of less than $1,500 in 1998, as measured by the World Bank. All but six SSA countries (Botswana, Gabon, Mauritius, Namibia, Seychelles, and South Africa) meet the definition of a lesser-developed country.

[14] The House report on H.R. 3009 states that, although Botswana and Namibia do not qualify as lesser-developed countries, they do not have fabric-making capacity and, thus, need the ability to use third-country fabrics for a limited period to aid in the development of their textile and apparel industries. See U.S. House of Representatives, Andean Trade Promotion and Drug Eradication Act, 107th Cong., 1st sess., Report 107-290, Nov. 14, 2001, p. 21.

[15] The remaining AGOA apparel imports consisted of knit-to-shape apparel and apparel of fabrics not available in commercial quantities in the United States.

Kenya[1]

Overview

The implementation of AGOA spurred the revitalization of Kenya's textile and apparel sector, creating alternative employment opportunities for the largely agrarian society. The sector has attracted Asian investment in apparel production for export to the United States; apparel accounted for 84 percent of Kenya's exports of sector goods in 2001. U.S. imports of sector goods from Kenya tripled during 2000-02 to $125 million, almost all of which entered under the AGOA provisions for lesser developed SSA beneficiary countries. Textiles and apparel accounted for less than 10 percent of Kenya's total annual exports. The apparel industry has been Kenya's leading source of new jobs, which increased by 21,000 during 2000-02. Total employment for the textile and apparel sector accounted for 16 percent of all manufacturing jobs in 1999, behind only the food processing sector. According to Kenyan sources, if the AGOA third-country fabric provision is extended beyond September 2004, sector employment could grow to as many as 200,000 workers. If the provision is not extended, Kenyan Government officials claim that foreign investors will close their plants in Kenya.

Industry Profile

Kenya's textile and apparel sector deteriorated during the early to mid-1990s following import liberalization, which exposed the sector to both foreign competition and an influx of imported used clothing; the collapse of the local cotton-processing industry; weak domestic economic activity, which reduced demand for apparel; and quota restriction in the U.S. market.[2] Competition from foreign suppliers reportedly adversely affected the cotton-processing industry, which consisted mostly of old and inefficient ginning facilities. This industry was also affected by uncertain supplies of raw cotton because of domestic weather-related problems; competition for domestic land from other cash crops such as tea, coffee, and maize; and the use of low-quality seeds. The problems disrupted cotton supplies for local textile mills.

The available data show that, from 1997 through 1999, the number of textile mills in Kenya fell from 94 to 63, but employment rose from 25,500 to 27,200 workers (table K-1). However, reports indicate that rising unemployment following the closure of local cotton and textile firms caused much civil unrest. Most mills in operation in 1999 were either knitting mills (42) or spinning, weaving, and finishing mills (11). According to a 2002 report, Kenya had 51 textile mills, a total workforce of 128,000, and fabric production capacity of 83

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[1] Prepared by Selamawit Legesse, Office of Industries.

[2] U.S. quotas on Kenya's products were eliminated soon after AGOA implementation in Oct. 2002. For information on the quotas, see USITC, *Likely Impact of Providing Quota-Free and Duty-Free Entry to Textiles and Apparel from Sub-Saharan Africa* (inv. No. 332-379), USITC Pub. 3056, Sept. 1997, p. 2-25.

million square meters annually.[3] The number of apparel factories rose by 105 during 1997-99 to 613 plants, and apparel employment totaled about 7,400 workers in 1997-99 according to UNIDO data (table K-1). According to a Government source, the apparel industry reportedly employed about 23,000 workers.[4] The apparel industry has a skilled workforce but the available supply of labor has declined in recent years as a result of the HIV/AIDS epidemic.[5] In addition, workers in EPZ apparel factories have expressed concern over their low pay, which averages $1.90 per day.[6]

Following implementation of AGOA in 2000, Kenya began to attract foreign direct investment (FDI) in apparel export production, especially in its export processing zones (EPZs). This FDI reportedly totals about $60 million, and is mostly from India, China, Sri Lanka, and Mauritius.[7] Several apparel factories that closed during the 1990s have re-opened. Foreign investors have opened 6 new plants and have plans to open another 18 soon.[8] Sri Lankan firms reportedly plan to expand their apparel operations in the EPZs by investing $2.4 million in 2003 and adding about 4,000 new jobs, and opening another 10 plants and creating another 10,000 jobs in the near future.[9]

Government Policies

Kenya began to adopt export-oriented programs in 1990 with the implementation of the EPZ and Manufacture Under Bond (MUB) programs, and the establishment of the Investment Promotion Center (IPC) to facilitate the FDI process.[10] Among the incentives offered to producers of goods for export are exemptions from payment of import duties or value added taxes on plant, equipment, raw materials, or intermediate inputs. The producers also benefit from a 10-year tax holiday and a 25-percent tax cut for the second 10-year period.[11] In June 2001, Kenya eliminated the 2.5-percent import duty on inputs and raw materials (e.g., textile fibers) used in the manufacturing sector, and also reduced import duties on a number of raw

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[3] "African Regional Center for Computing," *Manufacturing*, found at *http://www.arcc.or.ke/manu.htm*, retrieved Jan. 8, 2003.

[4] Official of Embassy of Kenya, facsimile to USITC staff, Nov. 7, 2002.

[5] About 13 percent of the adult population is HIV-positive. See USAID, *Kenya,* found at *http://www.usaid.gov-/country/afr/ke*, retrieved Jan. 8, 2003.

[6] See *Textiles Worker Unrest: Agoa Success Wearing Thin,* found at *http://allafrica.com/stories/200301280519-.html*, retrieved Feb. 11, 2003.

[7] "African Governments to WTO: We Need More Time to Compete," *Daily News Record: Textile News*, Jan. 27, 2003.

[8] Lina Ochieng, Commercial Attaché, Embassy of the Republic of Kenya, interview by USITC staff, Washington, DC, Jan. 3, 2003.

[9] Ibid.

[10] The Government of Kenya has submitted a grant proposal to the U.S. Trade and Development Agency for a feasibility study on improving ginning and cotton seed production in Kenya.

[11] The World Bank Group, *A Review of the Role and Impact of Export Processing Zone,* found at *http://www1.worldbank.org/wbiep/trade/othertrade/files/MadaniEPZ.pdf*, retrieved Jan. 31, 2003.

materials and capital goods from 5 percent to 3 percent ad valorem in the 2001-02 budget. Import duties on fabrics range from 25 to 35 percent ad valorem.[12]

Kenya receives trade preferences through the Common Market for Eastern and Southern Africa (COMESA), AGOA, GSP, the East African Co-operation (EAC), the Intergovernmental Authority on Development (IGAD), and as a signatory to the Lomé Convention, which allows Kenya's industrial exports to enter the EU free of duty until 2008.[13]

Certain Kenyan imports reportedly are subject to government approvals; foreign investors have limited access to domestic credit markets and are excluded from certain privatization activity; and all imports with an f.o.b. value of more than $5,000 are subject to preshipment inspection for quality, quantity, and price, and require a Clean Report of Findings by a government-appointed inspection agency. Kenya also imposes import declaration fees and certain penalty fees,[14] as well as high import duties and VAT on certain products.

Foreign Trade

Kenya's trade deficit in textiles and apparel narrowed from $66 million in 1997 to $13 million in 2001, reflecting an increase in exports of 25 percent, to $83 million, and a decrease in imports of 27 percent, to $97 million (table K-1). Textiles and apparel accounted for 5 percent of Kenya's total exports and imports in 2001.

Kenya's imports of sector goods are believed to consist mainly of fabrics and other inputs for use in apparel export production and, to a lesser extent, used clothing. The major import sources are China, India, Indonesia, and Pakistan, while the United States is a major import source for used clothing. Official U.S. statistics show that U.S. exports of used clothing to Kenya totaled $6.5 million in 2002. Kenya also imports significant quantities of textile fibers, which totaled $66 million in 2001, compared with $82 million in 1998. Most of the fiber shipments came from the EU, especially the United Kingdom, and the United States.

Kenya's exports of sector goods in 2001 consisted mostly of apparel ($73 million), 69 percent of which went to the United States (table K-2). Official U.S. statistics show that U.S. imports of textiles and apparel from Kenya roughly tripled in quantity and value during 1997-2002, to 36.5 million square meters equivalent (SMEs) valued at $126 million, representing less than 1 percent of total U.S. textile and apparel imports in 2002 (table K-3). Almost all of the imports from Kenya that year entered under the AGOA provision that provides duty-free treatment to apparel made in Kenya and other lesser-developed SSA beneficiary countries from third-country fabrics. The garments consisted mostly of cotton

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[12] Kenya reduced its ad valorem rates from the maximum of 60 percent in 1992 to 25 percent in 1999. See U.S. and Foreign Commercial Service, "Kenya Country Commercial Guide FY 2002," found at *http://www2.usatrade.gov/Website/ C...CGurl/CCG-KENYA2002-CH-2:-004CCF88*, retrieved Nov. 6, 2002.

[13] World Trade Organization, "Trade Policy Reviews: First Release, Secretariat and Government Summaries -- Kenya: January 2000," found at *www.wto.org/english/tratop_e/tpr_e/tp124_e.htm*, retrieved Oct. 17, 2002.

[14] U.S. and Foreign Commercial Service, "Kenya Country Commercial Guide FY 2002."

and manmade-fiber pants (63 percent of the total import volume in 2002) and cotton and manmade-fiber shirts and blouses (16 percent both knit and woven).

Table K-1
Kenya: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of establishments:					
Textiles	94	59	63	([1])	([1])
Apparel	508	605	613	([1])	([1])
Total	602	664	676	([1])	([1])
Number of employees:					
Textiles	25,539	25,492	27,190	([1])	([1])
Apparel	7,304	7,395	7,402	([1])	([1])
Total	32,843	32,887	34,592	([1])	([1])
Installed spinning capacities:					
Short-staple spindles (*1,000*)	105.0	105.0	105.0	105.0	105.0
Long-staple spindles (*1,000*)	4.0	4.0	4.0	4.0	4.0
Open-end rotors (*1,000*)	1.2	1.2	1.2	1.2	1.2
Installed weaving capacities:					
Shuttleless looms (*number*)	270	270	270	270	270
Shuttle looms (*number*)	1,500	1,500	1,500	1,500	1,500
Production index (1990=100):					
Textiles	59	59	([1])	([1])	([1])
Apparel	38	39	([1])	([1])	([1])
Foreign trade:					
Exports:					
Textiles (*million dollars*)	26.8	13.2	12.4	13.2	10.9
Apparel (*million dollars*)	39.7	43.1	47.4	50.4	72.5
Total *(million dollars)*	66.5	56.3	59.8	63.6	83.4
Imports:					
Textiles (*million dollars*)	98.3	92.3	89.2	83.2	78.3
Apparel (*million dollars*)	34.3	43.2	27.1	19.8	18.4
Total *(million dollars)*	132.6	135.5	116.3	102.9	96.7
Trade balance:					
Textiles (*million dollars*)	-71.5	-79.0	-76.8	-70.0	-67.4
Apparel (*million dollars*)	5.4	-0.1	20.3	30.6	50.6
Total *(million dollars)*	-66.1	-79.2	-56.5	-39.3	-13.3

[1] Not available.

Note.—Because of rounding, figures may not add to totals shown.

Sources: Industry data from the United Nations Industrial Development Organization, *International Yearbook of Industrial Statistics 2002;* and International Textile Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues. Trade data are United Nations data as reported by Kenya's trading partners.

Table K-2
Kenya: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	1	([1])	([1])	([1])	([1])
European Union	7	3	1	3	1
Canada	1	([1])	([1])	([1])	([1])
Subtotal	8	3	2	3	1
All other:					
Uganda	5	3	4	3	4
Tanzania	3	2	1	1	2
Burundi	1	([1])	1	2	1
Other	10	4	5	4	4
Subtotal	19	10	11	10	10
Grand total	27	13	12	13	11
Apparel (SITC 84):					
Quota markets:					
United States	34	37	42	47	69
European Union	3	2	3	2	2
Canada	([1])	([1])	([1])	([1])	([1])
Subtotal	37	40	45	49	71
All other	3	3	3	2	2
Grand total	40	43	47	50	73
Textiles and apparel:					
Quota markets:					
United States	34	37	42	47	69
European Union	9	5	4	5	2
Canada	1	1	([1])	([1])	([1])
Subtotal	44	44	46	52	72
All other	22	13	13	12	12
Grand total	67	56	60	64	83
	Percent				
Share of exports going to quota markets:					
Textiles	29	26	13	22	7
Apparel	92	93	94	97	98
Average	67	77	77	81	86

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table K-3
Textiles and apparel: U.S. general imports from Kenya, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	11,305	10,223	12,573	12,670	18,573	36,514
1	Apparel	10,467	10,201	12,467	12,556	18,521	35,184
30	Cotton textiles and apparel	10,797	10,084	12,178	12,078	16,518	24,427
60	Manmade-fiber textiles and apparel	503	119	390	480	1,985	11,931
338	Cotton knit shirts, men/boys	30	0	6	7	1	295
339	Cotton knit shirts, women/girls	([2])	([2])	([2])	1	5	1,093
340	Cotton not knit shirts, men/boys	4,204	3,614	4,505	2,752	1,098	1,272
341	Cotton not knit blouses	35	6	40	8	17	187
347	Cotton trousers, men/boys	2,482	2,963	2,897	3,788	4,584	6,591
348	Cotton trousers, women/girls	1,984	2,803	4,547	5,277	10,027	13,334
638	Manmade knit shirts, men/boys	([2])	0	0	14	21	938
639	Manmade knit shirts, women/girls	0	0	1	0	0	1,442
640	Manmade not knit shirts, men/boys	99	105	198	84	413	74
641	Manmade-fiber not knit blouses	0	0	0	0	60	475
642	Manmade-fiber skirts	1	0	1	0	2	212
647	Manmade-fiber trousers, men/boys	0	1	0	85	144	1,173
648	Manmade-fiber trousers, women/girls	0	0	21	167	67	2,010
650	Manmade-fiber robes	0	0	0	0	568	923
651	Manmade-fiber nightwear	0	0	0	0	644	665
652	Manmade-fiber underwear	0	0	1	0	0	679

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).
[2] Less than 500 square meters equivalent.

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov.*

Lesotho[1]

Overview

Lesotho is a least developed country with a per capita gross domestic product (GDP) of $440 in 2000.[2] The country is landlocked within the Republic of South Africa and has few natural resources. Lesotho has little large-scale manufacturing other than the apparel industry, which is based on its low-cost labor supply. Lesotho has a population of 2.1 million. Expatriate remittances account for 30 percent of Lesotho's GDP.

Unemployment is extensive, with estimates ranging from 40 percent to 60 percent. For workers not emigrating to South Africa to seek jobs, the vast majority (98 percent) of the manufacturing labor force of 45,000 is employed in the apparel industry, virtually the only source of manufacturing employment.[3]

Implementation of the AGOA in October 2000 helped spur foreign direct investment (FDI) in Lesotho's apparel industry due to the legislation's preferential terms, making Lesotho the leading apparel exporter to the United States from sub-Saharan Africa (SSA) since 2001. FDI in apparel production has come almost entirely from firms in Taiwan, which currently import all necessary inputs into Lesotho to make apparel for export.[4] Lesotho offers an abundant supply of low-cost labor, access to excellent port facilities of South Africa (transit time to Durban is 4 to 5 hours), and investment incentives. However, investment incentives from neighboring SSA countries could redirect part of these foreign FDI flows.

Industry Profile

Lesotho currently produces only apparel made from imported inputs. Production consists almost entirely of basic trousers, particularly 5-pocket denim blue jeans, and knit tops such as T-shirts. Investors from Taiwan are currently building a state-of-the-art denim fabric mill, and have announced plans recently for the construction of a yarn spinning plant and knitted fabric mill. The denim fabric mill under construction–scheduled for completion in October 2004–is expected to be the most advanced, state-of-the-art fabric mill in sub-Saharan Africa.

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[1] Prepared by Edward C. Wilson, Office of Economics.

[2] World Bank, "Sub-Saharan Africa – Lesotho – Country Brief," Sept. 2002, found at *http://lnweb18.-worldbank.org*, retrieved Oct. 28, 2002, and U.S. Department of State, Bureau of African Affairs, *Background Note: Lesotho*, Aug. 2002, found at *http://www.state.gov*, retrieved Jan. 28, 2003.

[3] Cotton Board and Cotton Incorporated, "Special Report - Sub-Saharan African Trade," *Cotton Importer Update*, special ed., Mar. 2001, pp. 2-3, found at *http://www.cottonboard.org*, retrieved Jan. 7, 2003. The Cotton Board is based in Memphis, TN, and Cotton Incorporated is based in Raleigh, NC.

[4] Acting Chief Executive, Lesotho National Development Corp., interview by USITC staff, Maseru, Lesotho, Mar. 6, 2003.

It will be fully vertically integrated with several apparel manufacturing factories.[5] The same firm building the denim fabric mill recently announced plans to build another mill with partners to produce knit yarns and fabric.

Industry structure and performance

Investment in Lesotho has increased significantly since the AGOA went into effect in 2000. The Lesotho National Development Corp. (LNDC) reported that there were 43 firms operating in the Lesotho apparel industry as of February 2003 (table K-4). Many of these firms are newly established operations drawn by the market-access preferences of the AGOA program, as well as larger firms that incorporated in Lesotho prior to the AGOA.[6] Taiwan firms dominate the manufacture and export of jeans and T-shirts.[7] In March 2001, based on surveys from 50 percent of the industry, the Cotton Board reported that total apparel capacity in Lesotho was approximately 21 million pairs of trousers and 35 million knitted shirts.[8] The Board estimated average capacity per firm at 5 million pairs of trousers and 4 million knitted shirts.

Factors of production

The apparel industry in Lesotho relies almost entirely on imports for its yarn and fabric inputs. Future yarn and fabric supply for the apparel industry is a concern of the Government of Lesotho, which considers it possible that Asian investors in Africa may relocate apparel production to Asia following the elimination of textile and apparel quotas in 2005.[9] Foreign investors in Lesotho report that there is insufficient water supply for apparel production, as well as irregular electricity supply.[10]

Lesotho has an abundant supply of unskilled, low-cost labor, with low turnover on the order of 10 to 15 percent. Companies reportedly train unskilled workers to work sewing machines fairly easily, reporting that workers can achieve a productivity level comparable to 70-80 percent of that found in Asian factories for basic apparel items such as jeans. This productivity reportedly falls to about 50 percent of Asian standards if pattern styles change.[11]

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[5] U.S. Department of State telegram 282, "World Textile Trade Without Quotas," prepared by U.S. Embassy, Maseru, Lesotho, Apr. 29, 2002. Vertical integration in the textile and apparel sector has reportedly been impeded by the South African Customs Union rebate item 470.03 that extends tariff relief to imported raw materials used for export. This encourages exports, but not integration.

[6] Acting Chief Executive, LNDC, interview by USITC staff.

[7] Cotton Board and Cotton Incorporated..

[8] Ibid. While the report does not specify per what period, these amounts are presumably per year.

[9] U.S. Department of State telegram 282, "World Textile Trade Without Quotas."

[10] Lesotho's only significant natural resource is water; however, the water supply currently is insufficient to support much economic activity. In 1986, the Lesotho Highlands Water Project began a multibillion dollar, 30-year project to make Lesotho essentially self-sufficient in water and electricity generation. U.S. Department of State, *Background Note: Lesotho*.

[11] Industry officials, interview by USITC staff, Maseru, Lesotho, Mar. 7, 2003. The international standard productivity for trousers/jeans was reported to be 18 minutes per piece, with Lesotho workers requiring 32 minutes per piece.

The acceptance of piece work is increasing in Lesotho's apparel factories, a practice currently not acceptable in the South African apparel industry.[12] The standard apparel wage in Lesotho is approximately $80 to $100 per month, compared with $200 to $250 per month in urban areas in South Africa.[13] The large firms exporting blue jeans from Lesotho reported that their workers earned an average of $100 to $130 per month, including bonuses and overtime.[14]

There is a union movement in Lesotho led by the Lesotho Clothing and Allied Workers Union.[15] Union apparel workers in Lesotho are demanding a minimum taxable wage of $128 (M880).[16] Asian investors locating facilities in sub-Saharan Africa are concerned about higher labor costs under unionized labor. The union leadership has said that working conditions in Lesotho have improved, with current work shifts of approximately 10 hours with a 1 hour lunch.[17] Although the union aims to improve its members' working conditions further, its overriding concern is to avoid causing foreign investors to relocate their facilities to other countries that would deprive union members of jobs.[18]

Investment

The LNDC, as the government parastatal agency charged with constructing and leasing factory shell space and providing utility services for water, electricity, and transport, received 15 new factory requests and 7 requests for expanded facilities in early 2001.[19] Six months later, this backlog had been reduced to 11 new factory and 4 space expansion requests.[20] In 2003, demand for new and expanded space in Lesotho continues to outpace the LNDC's ability to provide facilities. With manufacturing locations in the two industrial zones near Maseru essentially full,[21] the Chinese government has received permission from the LNDC to construct a third new zone–the Botha-Bothe Industrial Estate–in order to avoid possible funding delays due to the LNDC backlog. Construction on the new industrial park began in May 2002, with completion scheduled for March 2003.[22]

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[12] Cotton Board and Cotton Incorporated.

[13] Bharat Textile News, "Lesotho: Call for Workers' Strike Still on," found at *http://bharattextile.com*, retrieved Dec. 11, 2002. The Government of Lesotho sets the minimum wage at $80 per month (Maloti 552), compared to South Africa's minimum wage of $112 per month (Rand 768). Maloti and rand are equivalent currencies, trading at par value (comparison calculated at R 6.8571 per USD 1.00).

[14] Industry officials, interview by USITC staff, Maseru, Lesotho, Mar. 7, 2003.

[15] Jozef de Coster, "Opportunities for Textiles and Clothing in Sub-Saharan Africa," *Textile Outlook International*, Textiles Intelligence Ltd., Sept.-Oct. 2002.

[16] Bharat Textile News.

[17] Jason Beaubien, "African Nation Benefits from Free-Trade Program," National Public Radio, Mar. 12, 2003, found at *http://discover.npr.org*, retrieved Mar. 12, 2003.

[18] Ibid.

[19] U.S. Department of State telegram 1332, "AGOA Stimulates Industrial Expansion in Lesotho," prepared by U.S. Embassy, Maseru, Lesotho, Nov. 22, 2000.

[20] U.S. Department of State telegram 335, "Prime Minister Officiates at AGOA-driven USD 106 Million Textile Investment," prepared by U.S. Embassy, Maseru, Lesotho, June 29, 2001.

[21] Cotton Board and Cotton Incorporated. The two industrial parks are the Thetsane Industrial Estate and the Maputsoe Industrial Estate.

[22] Jozef de Coster.

CGM Industrial of Taiwan purchased a LNDC factory shell in August 2000 and began construction of a new $20 million facility. CGM reportedly plans to relocate its operations from South Africa to Lesotho. Another Taiwan firm, C&Y Garments, completed a $1 million expansion of its facilities in 2001.[23] Teboho Textiles and Embroidery purchased its factory shell after leasing it for 10 years, after which the firm reportedly began a $1 million expansion of its facilities in 2001.[24]

Significant investments underway in Lesotho involve the Nien Hsing Textile Co. Ltd. of Taipei, Taiwan, and its subsidiaries and its affiliated companies. In 1991, Nien Hsing Textile established its first overseas subsidiary: C&Y Garments, located in Lesotho. According to a trade source, in February 2000, Nien Hsing Textile merged with Chih Hsing Textile of Taiwan to form the world's largest denim and jeans manufacturer, with plants in Taiwan, Lesotho, Nicaragua, and Mexico.[25] In June 2001, Nien Hsing Textile began construction of a $100 million vertically integrated denim fabric mill and two apparel factories, to be operated through its affiliate, Nien Hsing International Lesotho (PTY) Ltd. The fabric mill was originally scheduled for completion in June 2004 (more recent estimates suggest September or October 2004),[26] while its two affiliated apparel factories are scheduled for completion in June 2003.

In November 2002, Nien Hsing Textile reported that it would invest $50 million to build a new yarn spinning plant near Maseru.[27] Nien Hsing reported that other Taiwan firms will join this investment, adding an additional $10 million to build a separate weaving mill and dyeing factory. The new plants are to serve the needs of the current cutting and sewing factories already in Lesotho, but could be expanded later to serve other factories in the region.

In January 2003, the Cotton Board reported that Nien Hsing International and Precious Garments had formed a strategic partnership to build a knitted fabric mill, scheduled to

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[23] U.S. Department of State telegram 335, "Prime Minister Officiates at AGOA-driven USD 106 Million Textile Investment."

[24] Ibid.

[25] "News Briefs," *Pacific Trade Winds*, Feb. 2000, p. 3.

[26] U.S. Department of State telegram 66, "Cotton Board Visits Lesotho; Finds Good Working Conditions and Market Possibilities," prepared by U.S. Embassy, Maseru, Lesotho, Jan. 31, 2003.

[27] U.S. Department of State telegram 748, "AGOA Lesotho: Taiwanese Companies to Invest USD 60 Million in Spinning and Weaving Plants," prepared by U.S. Embassy, Maseru, Lesotho, Nov. 29, 2002.

begin construction in April 2003.[28] Major knit fabric manufacturer Shining Century PTY Ltd. also reported to the Cotton Board representatives that it was seeking alternative sources of fabric to its current Asian supply in order to meet AGOA rules of origin requirements after 2004.

The Nien Hsing International denim mill under construction is to supply 2 million square yards per month (1.83 million square meters)[29] that is intended to supply "the three [believed to be Taiwan] garment factories," with little leftover for local or export sale.[30] As noted earlier, the Nien Hsing facility under construction will be the largest vertically integrated mill and factory facility in sub-Saharan Africa, with the most advanced machinery and technical expertise for spinning, weaving, dyeing, finishing, and sewing.

A major advantage for foreign investors in Lesotho is that access to South African road and transport facilities is seamless.[31] Transit time to Durban is 4 to 5 hours although port strikes at Durban have interrupted on-time delivery efforts and encouraged manufacturers to seek more reliable alternatives. Shipping by road to Port Elizabeth is farther, but more dependable. The government is considering extending rail access or establishing an air cargo hub near the industrial zones.

Government Policies

Domestic policies

The Government seeks FDI, offering incentives such as a 6-year tax holiday[32] for investments in industrial zones that provide reliable access to services (e.g., water, electricity, and transportation). The Lesotho International Finance Corp., a government-owned parastatal, assists with financing for large capital infrastructure projects in Lesotho; there is no government export credit insurance program or other type of export assistance.[33] According to a WTO report, the Government of Lesotho had encouraged the expansion of the apparel industry into more value-added finishing (e.g., production of zippers, collar supports, trimmings, elastic braids, and buttons).[34]

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[28] U.S. Department of State telegram 66, "Cotton Board Visits Lesotho." A representative of Shining Century, a knit shirt manufacturer, reported that Lesotho Fancy Knitting Co. was another firm that would be involved in this fabric mill investment. Representative of Shining Century, interview by USITC staff, Maseru, Lesotho, Mar. 8, 2003.

[29] U.S. Department of State telegram 1332, "AGOA Stimulates Industrial Expansion in Lesotho."

[30] Information in the paragraph is from U.S. Department of State telegram 335, "Prime Minister Officiates at AGOA-driven Textile Investment."

[31] Cotton Board and Cotton Incorporated.

[32] British Broadcasting Corporation, "US Trade 'Exploits' Lesotho Workers," *BBC News*, Mar. 15, 2002, found at *http://news.bbc.co.uk*, retrieved Oct. 29, 2002.

[33] Cotton Board and Cotton Incorporated.

[34] World Trade Organization (WTO), "The Kingdom of Lesotho," *Trade Policy Review*, WT/TPR/S/36, Apr. 6, 1998, p. 71.

The Government considers that the apparent decision by Taiwan firms to remain in Lesotho once the third-country fabric provision of the AGOA legislation expires in October 2004 is based on Lesotho's favorable investment location within the South African Customs Union (SACU).[35] The Government is involved in discussions with other SACU members regarding a regional integration framework for textile and apparel production that would be designed to capitalize on each SACU member's best resources. The Government sees such a framework as possibly concentrating cotton production in Zimbabwe; yarn-spinning production in Botswana, Swaziland, and South Africa; and fabric and apparel production in Lesotho.[36]

Trade policies

Lesotho qualifies for preferential market access in both the United States and the EU under various agreements. Legislation passed by the EU in June 2000 under the Cotonou Agreement provides Lesotho with quota- and tariff-free access to its textile and apparel markets. However, government officials in Lesotho report that it has been difficult to export to the EU market due to the rules of origin, which require double-stage processing.[37] The origin rules reportedly have limited Lesotho's exports to the EU, because Lesotho does not produce fabric and, in the past, South African fabric has not qualified under origination.[38]

The AGOA legislation passed by the United States in October 2000 provides Lesotho with quota- and tariff-free access to U.S. textile and apparel markets. FDI in Lesotho production of yarns and fabrics will enable Lesotho to not only supply apparel to U.S. markets, but also supply apparel inputs to other sub-Saharan African firms seeking to qualify for AGOA preferences. The pending denim fabric mill, planned knit fabric mill, and associated apparel factories operated by Nien Hsing and affiliates would permit them to continue exporting apparel to the United States under the AGOA.[39]

Foreign Trade

Lesotho posted a trade surplus in textiles and apparel of $169 million in 2001, up from $109 million in 2000 (table K-4). Imports totaled $65 million in 2001 and are believed to consist of inputs for use in the production of apparel for export. Lesotho's exports totaled $234 million in 2001 and consisted almost entirely of apparel destined for the United States (table K-5).

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[35] U.S. Department of State telegram 335, "Prime Minister Officiates at AGOA-driven USD 106 Million Textile Investment."

[36] U.S. Department of State telegram 282, "World Textile Trade Without Quotas."

[37] Representative of the Ministry of Trade and Industry, interview by USITC staff, Lesotho, Mar. 6, 2003.

[38] One producer in Lesotho indicated that certain garments made from South African fabric will qualify for preferences under the Cotonou Agreement in 2003. That producer indicated his company may look at the EU market for additional sales when this provision becomes effective. Under the EU-South African TDCA, full cumulation between South African and ACP countries will take place in 2006.

[39] U.S. Department of State telegram 335, "Prime Minister Officiates at AGOA-driven USD 106 Million Textile Investment."

Imports

At present, potential for U.S. textile exports to Lesotho appears remote due to the higher price of U.S. textiles compared to Asian textiles.[40] However, the economic growth in Lesotho generated by the substantial increase in Lesotho's apparel exports to the United States has resulted in a doubling of other U.S. exports to Lesotho, growing from $0.8 million in 2001 to an estimated $2.0 million by 2003.[41]

Exports

According to official U.S. trade data, U.S. imports of sector goods from Lesotho consisted almost entirely of apparel, particularly cotton garments (table K-6). U.S. apparel imports from Lesotho rose from 21.3 million SMEs in 1997 to 84 million SMEs in 2002, making it the largest source of U.S. apparel imports from sub-Saharan Africa. The major apparel products from Lesotho in 2002 were cotton pants and cotton knit shirts and blouses. Imports of these products from major suppliers are highly constrained by quotas.

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[40] Cotton Board and Cotton Incorporated.

[41] U.S. Department of State telegram 180, "Nomination of DCM Daniel Bellegarde for Charles E. Cobb Award for Initiative and Success in Trade Development, 2003," prepared by U.S. Embassy, Maseru, Lesotho, Mar. 12, 2003.

Table K-4
Lesotho: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of apparel establishments	([1])	([1])	([1])	([1])	[2]43
Number of apparel workers	([1])	([1])	([1])	([1])	[3]45,000
Production of selected products:					
Knitted T-shirts and sport shirts *(1,000 units)*	([1])	([1])	([1])	35,000	([1])
Trousers, including jeans *(1,000 units)*	([1])	([1])	([1])	21,000	([1])
Foreign trade:					
Exports:					
Textiles (*million dollars*)	([1])	([1])	([1])	0.2	0.2
Apparel (*million dollars*)	([1])	([1])	([1])	152.5	233.5
Total (*million dollars*)	([1])	([1])	([1])	152.7	233.7
Imports:					
Textiles (*million dollars*)	([1])	([1])	([1])	41.1	62.0
Apparel (*million dollars*)	([1])	([1])	([1])	3.1	3.1
Total (*million dollars*)	([1])	([1])	([1])	44.2	65.1
Trade balance:					
Textiles (*million dollars*)	([1])	([1])	([1])	-40.9	-61.8
Apparel (*million dollars*)	([1])	([1])	([1])	149.4	230.4
Total (*million dollars*)	([1])	([1])	([1])	108.5	168.6

[1] Not available.
[2] Preliminary 2002 data.
[3] Data from Trade Minister of Lesotho.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data from the Lesotho National Development Corporation, except as noted. Trade data are United Nations data as reported by Lesotho's trading partners.

Table K-5
Lesotho: Exports of textiles and apparel, by selected markets, 1997-2001

Item an market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	([1])	([1])	([1])	([2])	([2])
European Union	([1])	([1])	([1])	([2])	([2])
Canada	([1])	([1])	([1])	0	0
Subtotal	([1])	([1])	([1])	([2])	([2])
All other:					
Saudi Arabia	([1])	([1])	([1])	([2])	([2])
Botswana	([1])	([1])	([1])	([2])	([2])
Singapore	([1])	([1])	([1])	0	([2])
Other	([1])	([1])	([1])	([2])	([2])
Subtotal	([1])	([1])	([1])	([2])	([2])
Grand total	([1])	([1])	([1])	([2])	([2])
Apparel (SITC 84):					
Quota markets:					
United States	([1])	([1])	([1])	146	224
European Union	([1])	([1])	([1])	2	3
Canada	([1])	([1])	([1])	4	6
Subtotal	([1])	([1])	([1])	152	233
All other	([1])	([1])	([1])	([2])	([2])
Grand total	([1])	([1])	([1])	152	234
Textiles and apparel:					
Quota markets:					
United States	([1])	([1])	([1])	146	224
European Union	([1])	([1])	([1])	2	3
Canada	([1])	([1])	([1])	4	6
Subtotal	([1])	([1])	([1])	152	233
All other	([1])	([1])	([1])	([2])	([2])
Grand total	([1])	([1])	([1])	153	234
	Percent				
Share of exports going to quota markets:					
Textiles	([3])	([3])	([3])	([3])	([3])
Apparel	([3])	([3])	([3])	100	100
Average	([3])	([3])	([3])	([3])	([3])

[1] No data reported.
[2] Less than $500,000.
[3] Not applicable.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table K-6
Textiles and apparel: U.S. general imports from Lesotho, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	21,312	23,955	25,804	34,366	50,913	84,393
1	Apparel	21,312	23,955	25,804	34,365	50,900	84,154
30	Cotton textiles and apparel	19,803	21,092	24,363	30,217	42,618	59,835
60	Manmade-fiber textiles and apparel	1,509	2,863	1,441	4,149	8,295	24,558
338	Cotton knit shirts, men/boys	582	1,058	1,587	2,391	5,029	7,119
339	Cotton knit shirts, women/girls	5,201	5,879	6,577	8,057	10,115	16,257
347	Cotton trousers, men/boys	8,990	8,013	9,010	9,974	11,174	16,418
348	Cotton trousers, women/girls	2,255	4,968	6,188	8,658	14,754	17,196
638	Manmade knit shirts, men/boys	378	1,090	329	1,742	2,704	9,437
639	Manmade knit shirts, women/girls	399	971	496	1,150	1,974	4,688
647	Manmade-fiber trousers, men/boys	276	344	63	616	1,305	3,371
648	Manmade-fiber trousers, women/girls	312	337	152	289	1,909	4,651

[1] To administer the U.S. textile and apparel quota program, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified from statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

Madagascar[1]

Overview

Prior to the political turmoil in 2002, Madagascar's apparel industry was one of the fastest growing industries in sub-Saharan Africa (SSA),[2] primarily as a result of investors leaving Mauritius to seek lower-cost labor and LDBC status under the AGOA program.[3] Approximately half of all Madagascar exports are textile and apparel products. Major export markets are the United States and the EU, primarily because of market access preferences under the AGOA program and Cotonou Agreement, respectively. Recent investment has targeted the textile sector to supply fabric regionally. Generally, Madagascar is competitive in woven shirts, and the country's average labor costs are low enough to compete in the U.S. market.[4] Recent political turmoil may inhibit future investment, although to what extent is highly uncertain.

Madagascar is expected to encounter significant competition in global markets from exporting countries whose shipments will become duty-free in 2005, largely reflecting high administrative costs, relatively low labor productivity, limited supply of skilled workers, and long lead time requirements for locally produced fabric. Although the government has historically taken a hands-off approach to the industry's development, the recent change in leadership may alter this approach.

Industry Profile

Industry structure and performance[5]

As of 2001, there were 230 companies in the export processing zone (EPZ), of which 140 were apparel companies, employing between 80,000 and 100,000 workers. From 1997 to 2000, the number of textile and apparel firms increased by 24 percent, and the number of employees increased by 83 percent (table K-7). The industry has suffered several major setbacks recently, including the global economic slowdown, September 11 fallout, and political turmoil. Following a disputed presidential election in December 2001, blockades of the ports and roads effectively halted clothing production for most of 2002.

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[1] Prepared by Nannette Christ, Office of Economics.

[2] Niki Tait, "Prospects for the Textile and Clothing Industry in Madagascar," *Textile Outlook International*, Mar.-Apr. 2002, p. 131.

[3] The industry was seriously damaged as a result of the political turmoil which began in late-2001 and continued into 2002; therefore the majority of this discussion deals with the industry prior to these events. The future state of the industry in light of these events is highly uncertain.

[4] Industry official, interview by USITC staff, Mauritius, Feb. 25, 2003.

[5] This section is primarily based on information from Niki Tait, "Prospects for the Textile and Clothing Industry in Madagascar," pp. 131-157.

Cotona (part of Groupe Socota) is the only significant local fabric producer. It supplies 30 percent of local demand for woven fabric. Two companies, SAMAF and Festival, supply jersey fabrics. These local producers require 6 to 7 weeks lead time, giving them little or no advantage over imported fabric from Pakistan, India, and Asia. In 1988, Floreal Knitwear, part of CIEL (Mauritius) began operations as the first apparel firm in Madagascar. Prior to the political turmoil, it was the largest apparel employer in Madagascar with over 12,000 employees. The main apparel product is fully fashioned knitwear. Some of this knitwear, such as sweaters made from fine wool or cashmere, benefits from AGOA. Sweaters account for 40 to 60 percent of output, and other products include trousers, jeans, woven shirts, and T-shirts. Most product is "cut, make, trim" (CMT) for parent companies abroad.

Factors of production[6]

A substantial additional cost to conducting business in Madagascar involves service and overhead costs. For example, rent is relatively expensive; the administrative cost of importing and exporting goods quite high; and bribery is an expected cost of business. These costs have been estimated to represent as much as 10 to 20 percent of CMT costs. Transportation costs are also significant; shipping facilities tend to be in disrepair, cargo space is limited, the road network is inadequate, and the customs service is inefficient.

Aside from cotton, almost all other fiber and production inputs are imported. Madagascar's geographic location and inadequate infrastructure result in relatively high trade and transport costs.

One of the main attractions to apparel investors is Madagascar's relatively low-cost labor. In 2002, the average hourly compensation (including fringe benefits) of apparel production workers in Madagascar was $0.33, compared with $0.38 in Kenya and India, $0.41 in Pakistan, $0.68 in China, $1.25 in Mauritius, and $1.38 in South Africa.[7] The local workforce is known for its high-quality hand skills, which are an advantage in producing hand embroidered and smocked apparel. Productivity, however, is estimated to be lower than in Mauritius and significantly lower than China. The only training facility external to firms is Formaco, established by the French Government. Consequently, although labor costs in Madagascar can be up to 30 percent lower than those in Mauritius, lower productivity levels and labor rules weighted in favor of the workforce reduce this advantage to only 5 to 8 percent. In addition, there is a lack of locally trained supervisors, middle managers, and technical staff, requiring companies to use expatriate management.

Madagascar's textile and apparel sector is relatively low-tech by international standards. The textile industry employs mostly low-tech shuttle looms (table K-7). In the apparel industry, approximately 90 percent of fully fashioned knitwear is made on hand knitting machines with the limited automatic machinery used for higher quality products.

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[6] Except as noted, this section is primarily based on Tait, pp. 131-137.

[7] Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package Providers," New York, NY. For information on labor costs in the textile and apparel industries of countries covered by the Commission study, see table 3-1 in chapter 3 of this report.

Investment

The EPZ was established in 1990 to increase investment. Incentives include a grace period on corporate taxes, customs duty exemptions, VAT drawback scheme, and a 10-percent tax on dividends.[8] Recent increases in investment in Madagascar's textile and apparel sector are related to changes in the Mauritian currency. As the Mauritian textile and apparel sector expanded and labor costs increased, companies sought alternative production locations with relatively lower cost labor. These early investors were followed by French and Asian investors (primarily from China, Hong Kong, Malaysia, Pakistan, and Singapore). For example, in 2000/01 Crystal of Hong Kong invested in a factory employing 2,000 employees to make sweaters and 8,000 employees to make woven and knitted products. More recently, Middle Eastern firms (Saudi Arabia and UAE) have invested in Madagascar to access the U.S. market through the AGOA program. Other investment sources include Sri Lanka and India. Mauritius was one of the largest single investment sources with approximately 30 percent of EPZ investment prior to the political turmoil. Because of the possible lapse of AGOA's third-country fabric benefit, some investment had targeted spinning and dyeing factories.[9] In 1999, entrepreneurs invested approximately $51 million in the textile and apparel industry.[10]

AGOA was a major impetus for sector investment. For example, the foreign investment in the EPZ textile sector from January to June 2001 was approximately $62 million, three-times the total for 2000.[11] However, much of the investment was short-term, and could be moved should Madagascar lose its competitive advantage, such as AGOA LDBC status, or, as occurred, experience political turmoil. The political turmoil in 2002 led to significant disinvestment. For example, Novel Denim announced in March 2002 that it would transfer its woven and knit operations from Madagascar to Mauritius and South Africa.[12]

Government Policies

Domestic policies

Although the Government emphasized export promotion and established the EPZ, it has taken a relatively minimal role in the sector's development. Historically, the Government had not established a strategy with regard to the sector, and conducted little marketing.[13] In response to the extensive disinvestment caused by the recent political turmoil, the

[8] Oliver Cadot and John Nasir, "Madagascar: Incentives and Obstacles to Trade," *World Bank Findings*, No. 202, Mar. 2002.
[9] Tait, pp. 141 and 156.
[10] Cadot and Nasir, "Madagascar: Incentives and Obstacles to Trade."
[11] U.S. Department of State telegram 1177, "Madagascar July 2001 Commercial Notes," prepared by U.S. Embassy, Antananarivo, July 2001.
[12] EmergingTextiles.com, "Novel Denim Reports Loss after Madagascar's Troubles," Aug. 12, 2002, found at *http://wwwemergingtextiles.com*, retrieved Dec. 12, 2002.
[13] Tait, p. 149.

government has since begun to court investors. The Malagasy Government sent a trade mission to Mauritius, and is eliminating EPZ duties and refunding the VAT.[14]

Trade policies

Madagascar has liberalized its trade regime significantly in recent years. For example, export restraints and foreign exchange controls have been eliminated.[15] Madagascar is a member of the Common Market for Eastern and Southern Africa and the Indian Ocean Commission regional integration agreements. Madagascar is eligible for preferential treatment under the U.S. AGOA program, the EU "Everything But Arms" program, and the GSP programs of the United States, EU, Canada, Japan, and other countries.[16]

Foreign Trade

Madagascar's trade surplus in textiles and apparel rose from $92 million in 1997 to $262 million in 201 (table K-7), reflecting increases of 53 percent in imports, to $195 million, and 108 percent in exports, to $458 million. Textile imports increased by 47 percent and apparel imports rose by 164 percent. Main import sources for textile and apparel were Mauritius and China. Madagascar's exports of sector goods consisted almost entirely of apparel, shipments of which rose by 114 percent during 1997-2001 to $443 million (table K-8), reflecting AGOA preferences. In 2001, the trade-weighted average duties on U.S. imports from Madagascar were 5 percent ad valorem for textiles, 8 percent for apparel, and 8 percent for textiles and apparel.

U.S. imports of sector goods from Madagascar rose from 4.6 million square meters equivalent (SMEs) in 1997 to 37.5 million SMEs in 2001, and then fell significantly to 22.2 million SMEs in 2002 (table K-9). The imports consisted almost entirely of apparel, particularly cotton shirts, blouses, pants, robes, and underwear. U.S. imports of most of these garments from major suppliers are highly constrained by quotas. Most of the growth in Madagascar's apparel exports was accounted for by the United States, along with the EU, accounted for almost all of Madagascar's sector exports during 1997-2001.

[14] Industry representative, interview by USITC staff, Mauritius, Feb. 25, 2003.
[15] World Trade Organization (WTO), "Trade Policy Review: Madagascar: Feb. 2001," Feb. 21, 2001, press release, found at *http://www.wto.org*, retrieved Oct. 16, 2002.
[16] See the "overview" at the beginning of this appendix for more information on AGOA and the EU trade preferences program for sub-Saharan African countries.

Table K-7
Madagascar: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Estimated number of textile and apparel establishments	185	200	227	230	([1])
Estimated number of textile and apparel workers	41,000	45,000	60,000	75,000	([1])
Installed spinning capacities:					
Short-staple spindles (*number*)	75,000	69,000	58,000	58,000	58,000
Open-end rotors (*number*)	5,000	5,000	4,200	4,800	4,800
Installed weaving capacities:					
Shuttleless looms (*number*)	270	300	250	250	250
Shuttle looms (*number*)	1,350	650	700	680	680
Production index for textiles and apparel (1990=100)	59	59	([1])	([1])	([1])
Average total labor cost per operator hour	([1])	([1])	([1])	$0.37	[2]$0.33
Foreign trade:					
Exports:					
Textiles (*million dollars*)	13.3	15.0	12.4	15.6	14.7
Apparel (*million dollars*)	206.7	248.6	295.0	370.3	443.0
Total	219.9	263.7	307.4	385.9	457.8
Imports:					
Textiles (*million dollars*)	121.9	131.8	138.0	162.2	179.7
Apparel (*million dollars*)	5.9	12.4	15.9	23.6	15.6
Total	127.8	144.2	153.8	185.8	195.3
Trade balance:					
Textiles (*million dollars*)	-108.7	-116.8	-125.6	-146.6	-165.0
Apparel (*million dollars*)	200.7	236.2	279.1	346.7	427.4
Total	92.1	119.5	153.6	200.1	262.4

[1] Not available.
[2] Represents 2002 data for apparel production workers.

Note.—Because of rounding, figures may not add to totals shown.

Source: Establishment and employment data estimated by USITC staff based on information in Niki Tait, “Prospects for Textile and Clothing Industry in Madagascar,” *Textile Outlook International*, Mar.-Apr. 2002, fig. 4, p. 142; other industry data compiled from the International Textile Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues. Trade data are United Nations data as reported by Madagascar’s trading partners.

Table K-8
Madagascar: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	([1])	([1])	([1])	([1])	([1])
European Union	8	8	8	6	7
Canada	([1])	([1])	([1])	([1])	([1])
Subtotal	8	8	8	6	7
All other:					
Mauritius	5	7	4	5	7
Taiwan	0	0	([1])	1	([1])
Singapore	0	0	0	([1])	([1])
Other	([1])	([1])	([1])	3	([1])
Subtotal	5	7	5	9	8
Grand total	13	15	12	16	15
Apparel (SITC 84):					
Quota markets:					
United States	17	24	49	116	189
European Union	185	218	240	247	242
Canada	([1])	1	1	1	2
Subtotal	203	243	289	363	433
All other	4	6	6	7	10
Grand total	207	249	295	370	443
Textiles and apparel:					
Quota markets:					
United States	17	24	49	116	189
European Union	193	225	247	253	248
Canada	([1])	1	1	1	2
Subtotal	211	250	297	370	439
All other	9	13	10	16	18
Grand total	220	264	307	386	458
	Percent				
Share of exports going to quota markets:					
Textiles	63	52	62	41	46
Apparel	98	98	98	98	98
Average	96	95	97	96	96

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table K-9
Textiles and apparel: U.S. general imports from Madagascar, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	4,633	5,280	9,247	20,511	37,486	22,165
1	Apparel	4,625	5,280	9,244	20,495	37,479	22,161
30	Cotton textiles and apparel	4,547	4,887	8,354	18,351	32,244	18,195
60	Manmade-fiber textiles and apparel	17	5	114	569	3,307	3,656
338	Cotton knit shirts, men/boys	39	24	37	309	1,992	2,439
339	Cotton knit shirts, women/girls	47	167	513	1,128	3,281	2,500
340	Cotton not knit shirts, men/boys	1,041	1,182	2,178	3,236	3,483	615
341	Cotton not knit blouses	19	39	35	27	59	55
345	Cotton sweaters	0	328	278	1,108	3,504	1,695
347	Cotton trousers, men/boys	1,033	1,446	2,624	4,552	6,343	3,524
348	Cotton trousers, women/girls	580	945	1,205	2,565	6,339	3,707
350	Cotton robes	0	0	12	962	2,700	1,215
351	Cotton nightwear	2	3	388	673	195	290
352	Cotton underwear	1,650	563	384	1,423	3,173	1,163
638	Manmade knit shirts, men/boys	0	0	0	0	132	748
639	Manmade knit shirts, women/girls	0	0	0	40	663	177
640	Manmade not knit shirts, men/boys	14	0	0	0	([2])	275
641	Manmade-fiber not knit blouses	0	0	0	2	70	28
647	Manmade-fiber trousers, men/boys	([2])	0	0	0	826	595
648	Manmade-fiber trousers, women/girls	0	0	4	6	64	206
652	Manmade-fiber underwear	0	0	102	140	305	250
659	Other manmade-fiber apparel	0	0	([2])	145	158	1,021

[1] To administer the U.S. textile and apparel quota program, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified from statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).
[2] Less than 500 square meters equivalent.

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

Mauritius[1]

Overview

Mauritius' four main export products are T-shirts, men's woven shirts, trousers, and sweaters. Its major export markets are the EU and the United States, driven primarily by preferential access to these markets.[2] In the future, Mauritius will be able to source yarn from Asia without losing the EU preference.[3] However, the apparel industry is maturing as labor costs rise and companies demand shorter turn-around times, and exports have declined as a result of the global economic slowdown and investment in other sub-Saharan countries. In addition, in terms of labor cost, investment levels, productivity, and infrastructure costs, Mauritius is expected to face significant competition primarily from Asian countries after the removal of quotas. According to various observers, China has more skilled and productive workers, and AGOA preferences will not be enough to offset this advantage.[4] In addition, the industry faces the structural problems of its small size and long distance to U.S. and EU markets, especially as most goods are first shipped to South Africa for transport.[5]

Mauritius' proactive government recognizes this vulnerability and has initiated various programs to counter the probable negative impact of these changes, including increasing investment incentives, encouraging export diversification into textiles and non-apparel industries, facilitating industry restructuring, and developing promotional campaigns aimed at expanding its customer base. In addition, the government is actively supporting the continuation of tariff preferences, as well as coordinating a regional strategy involving investment and coordination with other sub-Saharan African countries. The country's ability to achieve its goal of becoming a regional hub providing a service-based role in the textile and apparel industry will likely determine the impact of quota removal and Mauritius' future participation in the industry.

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[1] Prepared by Nannette Christ, Office of Economics.

[2] See the "overview" at the beginning of this appendix for more information on trade preference programs for sub-Saharan Africa.

[3] Executive Director, CIEL Textile Group, interview by USITC staff, Mauritius, Feb. 24, 2003.

[4] President, American Chamber of Commerce, Mauritius; Director, Investment Promotion, Mauritius Board of Investment; Executive Director, CIEL Textile Group; Managing Director, Noblesse & Cie Ltee; and Managing Director, Socota Textile Mills Ltd; interviews by USITC staff, Mauritius, Feb. 24-25, 2003.

[5] Secretary General, Mauritius Chamber of Commerce and Industry, interview by USITC staff, Mauritius, Feb. 24, 2003.

Industry Profile

Industry structure and performance

Mauritius' manufacturing is concentrated in an EPZ. Within the EPZ, the textiles and apparel sector represents 83 percent of exports, 88 percent of employment, and 55 percent of the number of enterprises.[6] Overall, employment in the textiles and apparel sector accounted for about 16 percent of the total labor force.[7] During 2001-02, 286 companies were in the textiles and apparel sector, of which 47 were involved in spinning, weaving, dyeing, and knitting (table K-10). Between 1997 and 2001, the number of EPZ textile and apparel firms decreased by 26 percent, due primarily to the global economic slowdown as well as redirected investment from Mauritius to other SSA countries.

Factors of production

Raw materials

There is one cotton yarn mill in operation in Mauritius, and four others are planned. There are also four fabric mills producing woven fabric; 2 producing lightweight woven fabrics for shirts, and 2 producing denim for trousers.[8] Mauritius imports yarn from Asia, South Africa, Tanzania, and Zambia. Locally produced yarn can cost 19 to 27 percent more than yarn from certain foreign sources.[9] The industry's yarn requirement is about 40,000 tons per year, much of which must be imported.[10] Mauritius has no indigenous supply of fibers.

Labor

When the textile and apparel industry in Mauritius was first established, Mauritius had an abundant supply of relatively low-cost labor. However, as the industry grew, its size relative to the entire economy increased, resulting in increased labor costs. In 2002, the average hourly compensation (including fringe benefits) for apparel production workers in Mauritius was $1.25, compared with less than $0.40 in Madagascar, Kenya, Bangladesh, and India, and $0.68 in China.[11] According to one industry representative, Mauritius has 80 percent of

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[6] Niki Tait, "Prospects for the Textile and Clothing Industry in Mauritius," *Textile Outlook International*, May-June 2002, p. 145; Secretary General, Mauritius Chamber of Commerce and Industry, Ministry of Industry and International Trade, interview by USITC staff, Mauritius, Feb. 24, 2003.

[7] Secretary General, Mauritius Chamber of Commerce and Industry, Ministry of Industry and International Trade, interview by USITC staff, Mauritius, Feb. 24, 2003.

[8] Secretary General, Mauritius Chamber of Commerce and Industry, and industry representative, interview by USITC staff, Mauritius, Feb. 24 and 26, 2003.

[9] Secretary General, Mauritius Chamber of Commerce and Industry.

[10] Tait, p. 145.

[11] Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package providers," New York, NY. For information on labor costs in the textile and apparel industries of countries covered by the Commission study, see table 3-1 in chapter 3 of this report.

the production efficiency of China for a standard shirt.[12] Almost one-half of the Mauritius workforce has less than a primary education compared to Singapore and South Korea, where 39 percent and 10 percent of the population has less than a primary education.[13] In addition, in recent years wages have been increasing substantially faster than productivity.[14] The Government and the industry are responding to this in a number of ways. For the government's part, sector-specific programs are offered by the Industrial and Vocational Training Board, the Export Processing Zones Development Authority (EPZDA), the Chamber of Commerce and Industry, and the University of Mauritius. Within the industry, some companies have imported expatriate labor, which is permissible as long as it does not represent more than 33 percent of the total workforce. However, this option, may be short-lived as foreign workers have recently begun to request increased wages and better working conditions.[15] Other companies have invested abroad, such as in Madagascar, which has lower cost labor and "lesser developed" beneficiary country status under AGOA.[16]

Investment

Domestic and international investment has played a key role in the development of the textile and apparel sector in Mauritius. The earliest foreign investors were primarily from Hong Kong, attracted by the preferential access to the EU market through the Cotonou Agreement, while more recent investors have been attracted by preferential access to the U.S. market through the AGOA program. Recently, established companies are investing in the spinning and weaving industries to diversify away from apparel. There is currently one established cotton spinner, and four more are being developed (one is from Italy and three are joint ventures with Indian firms).[17] Investment in the textile sector is also driven by the scheduled expiration of third-country fabric provision under AGOA for "lesser developed" beneficiary countries (see "overview" at the beginning of this appendix for information on the AGOA provision). In the EPZ, textile and apparel investments are 60 percent local and 40 percent foreign.[18]

Hong Kong is currently the largest source of foreign investment in the textile and apparel industry, accounting for over 20 percent of EPZ textile and apparel investment. France, the United Kingdom, Germany, Taiwan, and China are other major investment sources.[19] In addition, companies from India, Italy, and Dubai have expressed interest in investing in the textile sector. For example, Indian Government officials announced plans to set up an

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[12] Industry representative, interview by USITC staff, Mauritius, Feb. 24, 2003.

[13] EIU Viewswire, "Mauritius: Economy: News analysis: Searching for a New Growth Path," Dec. 28, 2000, found at *http://www.viewswire.com*, retrieved Oct. 8, 2002.

[14] Ibid. Also, companies surveyed stated that Chinese expatriate employees are 20- to 30-percent more productive (Tait, p. 140).

[15] Emergingtextiles.com, "Mauritius Intends Becoming a Regional Hub," Apr. 4, 2002, found at *http://www.emergingtextiles.com*, retrieved Sept. 12, 2002.

[16] U.S. Department of State telegram 884, "Impact of Post-2004 Quota Elimination on Mauritius Textile and Apparel Industry," prepared by U.S. Embassy, Mauritius, July 30, 2002.

[17] Secretary General, Mauritius Chamber of Commerce, and industry representative, interview with USITC staff, Mauritius, Feb. 24 and 26, 2003.

[18] Secretary General, Mauritius Chamber of Commerce and Industry.

[19] EIU Viewswire, "Mauritius: Business: Industry Overview: Manufacturing," Sept. 11, 2002, found at *http://www.viewswire.com*, retrieved Oct. 8, 2002.

investment fund of approximately $34 million aimed at increasing textile investment and providing technical training.[20]

To access LDBC AGOA benefits and lower-cost labor, Mauritian companies themselves have made significant foreign direct investments in the textile and apparel sectors of other SSA countries, such as Botswana, Lesotho, Madagascar, and Mozambique. However, Madagascar, Mauritius' largest investment destination, experienced significant political turmoil in 2002, leading to the closure of some companies, halting investment plans, and redirecting investment to Mauritius.[21]

Government Policies

Domestic policies

Given the probable increase in competition after the removal of quotas in 2005, Government and sector participants have been encouraging and facilitating technology transfer and investment to increase productivity and decrease costs. The primary organizations responsible for these activities are the EPZDA, the Clothing Services Center (CSC, technical arm of the EPZDA), the Mauritius Industrial Development Authority (MIDA), and the Mauritius Board of Investment (MBI). In addition to increasing the industry's competitiveness, government and industry have focused on moving up the value-chain of textile and apparel activities. One strategy has been the "Made in Mauritius" promotional campaign, which provides a one-stop-shop for purchasers.

The textile industry is also attempting to expand textile production, which is relatively more capital-intensive and less reliant on labor. The government hopes to become a center for more capital-intensive activities, such as spinning, weaving, and dyeing.[22] Another major objective of the government is to transform Mauritius into a regional hub for the textile and apparel industry in Africa, which would provide value-added services in the areas of design, testing, management, logistics, procurement, and marketing. This effort aims at making Mauritius the "Hong Kong or Singapore of Africa," whereby Mauritius would become a bridge or gateway for cross-border investment and trade between sub-Saharan Africa and the world. As was the intent when the EPZ was first established, the Government is again emphasizing "moving away" from heavy reliance on a small number of sectors, this time the textile and apparel sector, and diversifying exports. For example, the government is encouraging the production of watches and clocks, jewelry, optical products, and leather goods.[23]

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[20] EmergingTextiles.com, "To Take Full Advantage of AGOA, Mauritius Tries Boosting Textile Investment," Sept. 11, 2002, found at *http://www.emergingtextiles.com*, retrieved Sept. 12, 2002.

[21] Tait, p. 151; for example, in Mar. 2002, Novel announced that it would relocate its Madagascar operations to Mauritius and South Africa.

[22] "Textile Industry Adapts to Higher Labor Costs and is Poised for the Future," *International Special Reports*, Mar. 20, 2000, found at *http://www.internationalspecialreports.com*, retrieved Oct. 29, 2002.

[23] Tait, p. 153.

Trade policies

Two major aspects of Mauritius' trade policies are the quota- and duty-free access to the U.S. market and EU market it enjoys under the AGOA program and Cotonou Agreement, respectively. Mauritius is a member of various regional organizations, including the Common Market for Eastern and Southern Africa, the Southern African Development Community, the Indian Ocean Commission, and the Indian Ocean Rim Association for Regional Cooperation. It is a signatory to the WTO and Abuja Treaty of African Economic Community. Mauritius also benefits from the GSP schemes of Australia, Austria, Canada, EU, Japan, Switzerland, and the United States.[24] In 2002, Mauritius and South Africa completed an agreement which included the progressive removal of import tariffs in the textile and apparel sector. Duties would be lowered to 15 percent in 2002, then reduced to 10 percent in 2003 and 4 percent in 2004; duty-free entry will be effective from January 1, 2005.[25] Mauritius' trade is also facilitated by an efficient customs department and the use of electronic data exchange.[26]

Foreign Trade

Mauritius' textile and apparel imports decreased by 18 percent during 1997-2001 (textile imports decreased by 18 percent and apparel imports decreased by 14 percent (table K-10)). Main import sources for textiles and apparel in 2000 were India (28 percent) and China (23 percent).

Mauritius' textile and apparel exports decreased by 2 percent during 1997-2001 (textile exports increased by 19 percent and apparel exports decreased by 4 percent) (table K-11). Main export destinations for textiles and apparel in 2001 were the EU (60 percent) and the United States (28 percent). The trade-weighted average duties on U.S. sector imports from Mauritius for 2001 were 6.3 percent ad valorem for textiles, 14.8 percent ad valorem for apparel, and 14.8 percent ad valorem for both textiles and apparel. The leading U.S. imports from Mauritius were cotton apparel, particularly pants and shirts (table K-12).

[24] U.S. and Foreign Commercial Service, "Mauritius Country Commercial Guide FY2002: Trade Regulations, Customs and Standards," found at *http://export.gov*, retrieved Nov. 21, 2002.

[25] EmergingTextiles.com, "To Take Full Advantage of AGOA, Mauritius Tries Boosting Textile Investment."

[26] Tait, p. 152.

Table K-10
Mauritius: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of establishments:					
Textiles	52	50	48	45	47
Apparel	332	352	361	240	239
Total	384	402	409	285	286
Number of workers:					
Textiles	5,517	5,326	5,537	4,672	4,858
Apparel	67,495	72,348	77,031	75,329	72,145
Total	73,012	77,674	82,568	80,001	77,003
All operations in EPZs:					
Number of firms	480	495	512	518	522
Number of workers	83,391	90,116	91,374	90,682	87,607
Investment (*million MRs*)	1,245	1,445	1,710	1,702	1,610
Installed long-staple spinning capacity (number of spindles)	1,000	1,000	1,000	1,000	1,000
Purchases of large circular knitting machines (number of machines)	([1])	86	53	49	53
Foreign trade:					
Exports:					
Textiles (*million dollars*)	79.9	79.0	79.9	80.7	94.8
Apparel (*million dollars*)	892.2	970.3	920.3	947.5	860.5
Total (*million dollars*)	972.1	1,049.3	1,000.2	1,028.2	955.3
Imports:					
Textiles (*million dollars*)	447.7	468.1	417.2	411.1	367.0
Apparel (*million dollars*)	21.5	18.4	18.0	18.3	18.4
Total (*million dollars*)	469.2	486.6	435.2	429.4	385.4
Trade balance:					
Textiles (*million dollars*)	-367.7	-389.2	-337.3	-330.3	-272.2
Apparel (*million dollars*)	870.7	951.9	902.3	929.2	842.1
Total (*million dollars*)	502.9	562.7	565.0	598.9	569.9

[1] Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Establishment and employment data from the United Nations Industrial Development Organization, *International Yearbook of Industrial Statistics 2002*, p. 444, and Niki Tait, "Prospects for the Textile and Clothing Industry in Mauritius," *Textile Outlook International*, May-June 2002, table 8, p. 138. Data on spinning capacity and knitting machine purchases from the International Textile Manufacturers Federation, *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues. Trade data are United National data as reported by Mauritius.

Table K-11
Mauritius: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	([1])	([1])	([1])	([1])	([1])
European Union	11	9	8	3	7
Canada	([1])	([1])	0	0	([1])
Subtotal	12	10	8	4	7
All other:					
Madagascar	47	55	57	53	63
Zimbabwe	6	3	2	4	5
Malta and Gozo	([1])	([1])	([1])	4	5
Other	15	11	13	16	16
Subtotal	68	69	72	77	88
Grand total	80	79	80	81	95
Apparel (SITC 84):					
Quota markets:					
United States	197	256	258	283	271
European Union	665	682	633	637	568
Canada	9	11	10	10	8
Subtotal	871	949	901	931	846
All other	21	21	20	17	15
Grand total	892	970	920	948	861
Textiles and apparel:					
Quota markets:					
United States	197	257	259	283	271
European Union	676	691	640	641	574
Canada	9	11	10	10	8
Subtotal	883	959	908	934	853
All other	90	90	92	94	103
Grand total	972	1,049	1,000	1,028	955
	Percent				
Share of exports going to quota markets:					
Textiles	14	12	10	5	7
Apparel	98	98	98	98	98
Average	91	91	91	91	89

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table K-12
Textiles and apparel: U.S. general imports from Mauritius, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	34,222	37,566	38,950	40,115	41,116	47,064
1	Apparel	34,209	37,271	38,387	39,771	41,072	46,901
30	Cotton textiles and apparel	28,165	32,218	32,821	35,236	37,517	45,090
60	Manmade-fiber textiles and apparel	5,204	3,555	4,943	4,200	2,910	1,659
338	Cotton knit shirts, men/boys	1,339	1,505	1,481	1,301	1,692	2,703
339	Cotton knit shirts, women/girls	1,882	1,757	1,841	1,464	2,992	3,813
340	Cotton not knit shirts, men/boys	5,391	6,250	7,302	9,228	7,563	8,486
341	Cotton not knit blouses	466	795	806	871	153	191
347	Cotton trousers, men/boys	6,534	9,389	8,964	9,348	9,201	10,582
348	Cotton trousers, women/girls	5,707	8,054	8,893	8,702	11,251	14,059
350	Cotton robes	9	0	0	48	409	382
351	Cotton nightwear	1,184	512	433	490	359	1,004
352	Cotton underwear	967	517	31	17	2	327
638	Manmade knit shirts, men/boys	671	1,146	619	496	272	144
639	Manmade knit shirts, women/girls	1,257	1,510	2,089	1,874	1,312	232
647	Manmade-fiber trousers, men/boys	123	46	85	935	126	63
648	Manmade-fiber trousers, women/girls	937	0	342	335	470	137

[1] To administer the U.S. textile and apparel quota program, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified from statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

South Africa[1]

Overview

The textile and apparel sector in South Africa has been undergoing restructuring since international anti-apartheid trade sanctions were lifted in the early 1990s. In 2001, the sector accounted for 1.2 percent of the country's GDP (down from 1.5 percent in 1997), and was the second-largest source of government revenue (after the mining sector) and the sixth-largest source of manufacturing employment with 15 percent of the total.[2] Textiles and apparel accounted for 2 percent, or $471 million, of South Africa's total exports in 2001.[3]

The Government of South Africa encourages foreign direct investment (FDI) by allowing 100-percent foreign ownership, eliminating foreign exchange controls, and extending tax allowances to foreign firms, among other investment-sector promotion activities. Although some foreign investors have found the lower wages in other sub-Saharan African (SSA) countries more attractive, others have found that South Africa's more developed export infrastructure and the availability of higher skilled labor offset some of the country's additional production costs. South Africa benefits from AGOA preferences, but is ineligible for AGOA preferential treatment for apparel made from "third-country" fabrics or yarns (other than of U.S. or SSA origin).[4]

Industry Profile

The textile and apparel sector in South Africa is vertically integrated from the production of natural fibers (e.g., cotton and wool) and manmade fibers (e.g., polyester) through the manufacture of intermediate inputs (mainly yarns and fabrics) to the production of finished goods, including apparel, home textiles, and industrial textiles. The sector benefits from South Africa having the most advanced transportation, telecommunications, and utilities infrastructure in SSA. South Africa's geographic location provides ready access for imports of raw materials from neighboring countries and ocean access to foreign markets.

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[1] Prepared by Edward C. Wilson, Office of Economics.

[2] Textile Federation of South Africa, *South African Textile Statistics & Economic Review 2001/2002* (Bruma, South Africa), pp. 13-14.

[3] Based on United Nations trade data for SITC 65 (textiles) and SITC 84 (apparel).

[4] See "overview" at the beginning of this appendix for information on the AGOA third-country fabric and yarn provision, a provision set aside only for "lesser-developed" beneficiary countries, as well as Botswana and Namibia.

Industry structure and performance

The structure and performance of South Africa's textile and apparel sector reflect previous isolation from foreign trade and competition because of international sanctions, and ongoing adjustment to socioeconomic and policy changes, and structural changes currently underway in the economy. The sector has restructured extensively in recent years, marked by "the closure of a number of companies with a resultant loss of employment" and major changes in ownership of textile firms, with these firms "now being mostly in the hands of a few large corporations."[5] The significant depreciation of the South African currency (rand) during the latter part of 2001 improved the competitiveness of South African producers in export markets, but also increased the cost of imported inputs used by the sector.[6]

Textiles

South African textile shipments (excluding those of knitting mills) fluctuated within a narrow range during 1997-2001, averaging about R10 billion (rand) annually.[7] Total textile production fell by 10 percent during 1997-99, and then partially recovered, increasing by 4 percent in 2001 (table K-13, found at the end of this country profile). Consumption of textile fibers fell by 12 percent during 1997-2000, and then rose by 8 percent in 2001 (data for 2000-01 are preliminary). In 2001, manmade fibers accounted for about two-thirds of South African fiber consumption and cotton accounted for 25 percent. Capacity utilization in the textile industry also fluctuated in a narrow range during 1997-2001, ranging from a low of 79 percent in 1998 to a high of 84 percent in 1999; in 2001, it averaged 81 percent. During 1997-2001, employment declined by 30 percent in the textile industry (excluding knitting mills), to 53,372 workers, and by 42 percent in the knitting mill segment, to 10,701 workers. Textile firms are located largely in the industrial areas of the East Cape, West Cape, and Natal.

Apparel

South African apparel shipments (including those of the knitting mills) grew by 20 percent during 1997-2001 to R11.1 billion.[8] Of the shipments in 2001, the knitting mills (fabrics and articles) accounted for 17 percent (R1.8 billion) of the total and other apparel accounted for 83 percent (R9.2 billion). Capacity utilization in the apparel industry average about 86 percent in 2000 and 2001.

The apparel industry consists of many small firms with a workforce totaling about 122,500 employees in 2001. Industry sources indicated that there were about 1,300 apparel firms operating in South Africa in 2001, but also estimated that an additional 2,000 small, emerging companies may be operating largely in decentralized areas with easy access to low-

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[5] Textile Federation, *South African Textile Statistics*, pp. 4-5.

[6] Ibid., p. 8.

[7] Information in the paragraph is mainly from the Textile Federation, *South African Textile Statistics*, pp. 4-17.

[8] Information in the paragraph is from the Textile Federation, *South African Textile Statistics*, p. 23.

cost labor.[9] Employment in the apparel industry fluctuated within a narrow range during 1997-2001, totaling about 122,500 workers in 2001 (table K-13). Apparel companies have sought to adapt to import competition largely by cutting employment to maintain productivity,[10] but labor unions have resisted this approach.[11] Employment at apparel firms is thus fairly rigid, leaving management unable to retrench their business through job cuts when necessary and thus less willing to take on full-time employees when the need arises. Officially, unemployment is registered at around 30 percent, whereas unofficial estimates suggest 45 percent is more likely.

Production of knit and woven garments in the "formal" segment of the South African apparel industry averaged more than 364 million pieces per year in 1999 and 2000.[12] Apparel firms produce primarily for the local market, as their small size prevents achieving economies of scale, reinforcing inefficiencies resulting from small-lot order and recurring equipment adjustments,[13] and hindering these firms from supplying apparel items in the large volumes sought by medium-sized high-end retailers in the United States and Europe. The industry is still in a state of flux as it seeks more viable product specialties to meet the competitive challenge in its domestic market from lower cost imports. Nonetheless, as South African apparel firms develop export markets, there is some sense that the industry may be slowly consolidating, aiming toward higher end production.[14]

Factors of production

Raw materials

The textile and apparel sector has access to a relatively abundant supply of raw materials.[15] South Africa produces cotton and manmade fibers, exports surplus wool, and is the world's leading producer of mohair. Data on cotton for crop year 2000/01 show that South African cotton consumption was divided almost equally between domestic production (29,600 tons) and imports (29,700 tons). South Africa reportedly grows primarily short-staple cotton and relies on imports (mostly from Zimbabwe, Zambia, and Mozambique) for its long-staple cotton requirements.[16] A few large firms produce manmade fibers (mainly polyester staple

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[9] Cotton Board and Cotton Incorporated, "Special Report - Sub-Saharan African Trade," *Cotton Importer Update*, special ed., Mar. 2001, pp. 2-3, found at *http://www.cottonboard.org,* retrieved Jan. 7, 2003.

[10] Andrew Mollett, "Prospects for the Textile and Clothing Industry in South Africa," *Textile Outlook International*, Textiles Intelligence Unit, May 2001.

[11] Information in remainder of paragraph is from an industry official, interview by USITC staff, Durban, Mar. 1, 2003.

[12] Statistics South Africa, "Manufacturing statistics: textiles, clothing, leather and leather products, footwear, wood and wood products, furniture, paper and paper products and printing," Stat. rel. P3051.2, Dec. 6, 2001, found at *http://www.statssa.gov.za*, retrieved Jan. 28, 2003.

[13] U.S. Department of Commerce, "AGOA-related Opportunities – Textiles/Clothing" (Industry Sector Analysis (ISA) 77115), Dec. 9, 2001, found at *http://www.buyusainfo.net*, retrieved Jan. 13, 2003.

[14] Mollett (2001), p. 3.

[15] Information in the paragraph is mainly from the Textile Federation, *South African Textile Statistics*, pp. 6-15.

[16] The South African Government requires that local cotton supplies be exhausted before foreign cotton can be imported.

and filament, polypropylene, nylon, and acrylic) and supply about two-thirds of domestic manmade-fiber consumption.[17] Wool production rose from 50,100 tons in crop year 1997-98 to 54,300 tons in 1998-99, and then fell to 48,600 tons in 2000/01.[18] In 2001, South African consumption of wool and mohair totaled about 5,500 tons. The 1999/2000 mohair auction in the East Cape brought sales of $20 million, of which 80 to 90 percent is typically exported. South Africa supplies around 60 percent of the world mohair market.[19]

Labor

The Cotton Board identified four labor-management patterns in the South African apparel industry, based on size and type of firm. Small firms have low-cost, unskilled, nonunion labor. They also typically operate outside of formal labor and taxation channels. Due to lack of management skills, small firms face the difficulty of marshaling their labor resources to achieve scale-economy production.

Medium-sized firms have high cost, skilled, unionized labor. They often utilize the most current technology, and have the most experience in exporting. However, poor labor-management relations often lead to demands for wage increases that exceed both productivity increases and export price advantages conferred by a depreciating currency (the rand). Medium-sized firms are typically located in major urban industrial areas of Cape Town, Durban, and Johannesburg.

Large firms also have high-cost, skilled labor. However, the competitiveness of these firms relies more on both collaborative labor-management relations and on these firms' large production capacity and commensurate economies of scale. The large firms are considered to be the only ones capable of meeting the volume requirements of major U.S. retail importers.[20]

Transnational firms have low-cost, unskilled, nonunion labor. These firms set up large-scale operations, typically in the decentralized regions where wages are typically 50 percent lower than in urban areas. Transnationals are often from Hong Kong and Taiwan, and use Chinese management and work practices, including payment on a piece-work basis, a practice not generally accepted by urban textile workers.

The hourly compensation (including social costs) of production workers in South Africa's spinning and weaving segment for 2002 averaged $2.17, compared with $1.33 in Mauritius, $0.62 in Kenya, $0.69 in the coastal region of China, and $0.57 in India.[21] In the apparel industry, average hourly compensation for production workers in South Africa was $1.38, compared with $1.25 in Mauritius, less than $0.40 in Kenya, Madagascar, Bangladesh, India,

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[17] U.S. Department of Commerce, "AGOA-related Opportunities – Textiles/Clothing."

[18] South Africa has about 21 million sheep with wool production in 1999/2000 of 49.8 million kilograms and an average yield (wool clip) of 60.3 percent. Textile Federation, *South African Textile Statistics*, p. 6.

[19] U.S. Department of Commerce, "AGOA-related Opportunities – Textiles/Clothing."

[20] Ibid.

[21] Werner International Management Consultants, "Spinning and Weaving Labor Cost Comparisons 2002," Reston, VA. Labor cost data for other countries covered by the Commission study are provided in table 3-1 of chapter 3 of this report.

and Indonesia, and $0.68 in China.[22] Where labor unions are active, the average urban wage in the textiles and apparel sector is roughly $200 to $250 per month.[23]

Technology

The South African textile industry generally has been hampered by relatively old plants and equipment; investment in new technology was impeded by surcharges levied for balance-of-payments on imported machinery (as well as other goods) during 1989-93.[24] Installed yarn and fabric production capacity fell between 1997 and 2001, when the number of short-staple spindles fell from 610,000 to 169,000 and the number of shuttleless looms declined from 3,650 to 1,020 (table K-13). Nonetheless, some textile and apparel firms have made large capital investments since 1995 to improve operations.

Investment

Domestic investment

Industrialists have considered the South African textile and apparel sector chronically short of investment over the past decade. The 1992 Swart Report by the government recommended investments in technology totaling R2.7 billion ($337.5 million) over 8 years to increase value-added operations in wool production, and improve financing opportunities for small textile and apparel firms.[25] A 1998 reassessment of this needed upgrade by textile industry leaders considered capital projects ranging from R3 billion to R10 billion ($375 million to $1,250 million) over 5 to 10 years, in anticipation of U.S. market-access preferences under AGOA.[26] The bulk would be for new machinery–particularly for spinning, weaving, finishing, dyeing, and printing–to be equally divided between modernizing existing facilities, and adding new capacity.

The economic restructuring and trade liberalization begun in the 1990s led to a surge of lower priced imports, as well as illegal imports of used clothing, which in turn led to a number of bankruptcies among South African firms.[27] Other South African firms adjusted by relocating out of the country, citing high labor and energy costs, and import dumping in

[22] Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package Providers," New York, NY, Nov. 2002.

[23] U.S. Department of Commerce, "AGOA-related Opportunities – Textiles/Clothing." The minimum wage in urban South Africa is $112 per month.

[24] Ibid.

[25] Andrew Mollett, "Outlook for Textiles and Clothing in South Africa," *Textile Outlook International*, The Economist Intelligence Unit/Textiles Intelligence Ltd., July 1995, p. 130.

[26] U.S. Department of Commerce, "South Africa - Textile and Apparel Industry."

[27] EmergingTextiles.com, "South Africa's Apparel Get Effective Duty-free Entry into the US," Mar. 13, 2001, found at *http://www.emergingtextiles.com*, retrieved Dec. 12, 2002.

the local market from China and Turkey.[28] Still other firms adjusted through consolidations, as well as shifting into middle- and upper-end products, and developing export markets.

Foreign investment

In recent years, economic forces and government policies together had a mixed effect on foreign direct investment (FDI) in South Africa. The 1997 Asian financial crisis slowed Japanese and Taiwan FDI in South Africa, which, in turn, hampered sector restructuring plans.[29] Since the implementation of AGOA in October 2000, textile manufacturing has received substantial FDI, especially in the East Cape.[30] Asian firms have returned to that area, reopening many plants closed during the 2000 recession.[31] One source estimates that Taiwan firms own approximately 30 percent of the knitting fabric mills.[32] In November 2002, Novel Denim Co.(Hong Kong) reportedly indicated that it would invest in a new apparel factory at Cape Town, with production capacity of 225,000 units per month.[33] Novel had previously built a vertically integrated textile complex in that city. Its decision to invest in a second factory reportedly was based on the past steady depreciation of the rand,[34] good infrastructure, and possible further labor instability at a production facility in Madagascar.

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[28] For example, a trade source reported that Waverley Blankets announced in June 2001 its decision to accept relocation incentives offered by the Government of Botswana. See Economist Intelligence Unit (EIU), "South Africa – Textiles Giant Waverley Relocates," Nov. 22, 2000, found at *http://www.viewswire.com*, retrieved Oct. 8, 2002. This use of investment incentives by Botswana began a debate within the Southern African Development Community (SADC) on the need to harmonize investment incentives and develop guidelines for regional industrial policy as part of the SADC Trade Protocol.

[29] U.S. Department of Commerce, "South Africa - Textile and Apparel Industry."

[30] EIU, "South Africa – Investment Prospects," Mar. 7, 2001, found at *http://www.viewswire.com*, retrieved Oct. 8, 2002.

[31] U.S. Department of Commerce, "AGOA-related Opportunities – Textiles/Clothing."

[32] Brian Brink, Director, Textile Federation of South Africa, interview by USITC staff, Pretoria, Feb. 27, 2003.

[33] EmergingTextiles.com, "South Africa Still Expecting Rebound in Textile Production," Feb. 8, 2002, found at *http://www.emergingtextiles.com*, retrieved Dec. 12, 2002.

[34] At least until 2002. The rand depreciated steadily from around 3.5 rand per U.S. dollar in 1994 to over 11.5 rand in the first quarter of 2002. Since then, however, the rand has strengthened to around 7.7 by late April 2003.

Government Policies

Domestic policies

In April 2002, the Department of Trade and Industry (DTI)[35] released the Integrated Manufacturing Strategy (IMS), which aims to boost South African competitiveness during 2002-14 through privatization and managed liberalization to improve the energy, transport, and telecommunications infrastructure, while promoting economic growth and export expansion specifically in seven sectors,[36] including textiles and apparel.[37]

Trade policies

In 1992, based on recommendations of the Swart Report, the Government implemented 10-year phased tariff reductions for the South African Customs Union (SACU). Import duties were reduced to 7.5 percent ad valorem for polyester fibers, 15 percent for yarns (filament and spun), 22 percent for fabrics (woven and knitted), 30 percent for textiles, and 40 percent for apparel.[38] These tariffs are to be in effect in South Africa as of September 1, 2002[39] and apply to intra-SACU trade as well.

These tariff reductions have led to escalating import penetration by low-cost Asian textiles and apparel, which has exacerbated unemployment in South Africa among domestic firms that have adjusted to the increased import competition largely by cutting jobs. Nonetheless, the tariff reductions have reduced costs for textile and apparel producers that use imported inputs.

The Government sought to mitigate the effects of import competition by instituting various export incentive programs, particularly when import penetration reached its current level of around 40 percent of the domestic market beginning in the mid-1990s.[40] Introduced in 1993, the main incentive program in operation is the Duty Credit Certificate Scheme (DCCS),[41] which aims "to influence and encourage textile and clothing manufacturers to compete internationally, without government subsidies."[42] The DCCS offers qualifying exporters a credit against customs duties on imported inputs based on certain export performance measures audited by the government regarding export growth, productivity, and training.

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[35] EIU, "South Africa – GEAR Strategy Modified," Mar. 30, 2001.

[36] EIU, "South Africa – A Draft Manufacturing Strategy is Launched," June 27, 2002, found at *http://www.viewswire.com*, retrieved Oct. 8, 2002.

[37] Department of Trade and Industry of South Africa, *Accelerating Growth and Development: the Contribution of an Integrated Manufacturing Strategy* (no date), found at *http://www.dti.gov.za*, retrieved Feb. 11, 2003. The budget reportedly has R 500 million ($62.5 million) to invest over 10 years in the textile and apparel sector concerning logistics, innovation, skills, and research.

[38] Mollett (1995), pp. 126 to 128.

[39] Textile Federation, *South African Textile Statistics*, p. 5.

[40] Ibid., p. 3.

[41] Department of Trade and Industry, p. 3.

[42] Ibid. Qualifying exporters receive roughly a 30-percent credit against customs duties for rand export sales, f.o.b. Industry official, interview by USITC staff, Durban, Mar. 1, 2003.

The DCCS was most recently extended for the period through March 31, 2005.[43] Although duty credit schemes have been considered important, they are reportedly being phased down.[44]

In addition, the SACU extends tariff relief to imported raw materials used for exported items under the SACU rebate program 470.03.[45] Under the 407 program, the 22-percent import duty on fabrics can be rebated to firms that can prove that these fabric inputs were re-exported as part of the firm's apparel exports. A firm may not claim the DCCS export credit, however, if claiming the 407 rebate.

South Africa is not subject to import quotas under the WTO Agreement on Textiles and Clothing in the U.S., EU, or Canadian markets. South Africa benefits from preferential access to the U.S. market under AGOA and the EU market under the EU-South Africa Free Trade Agreement.[46] This agreement provides a gradual phase down of EU tariffs on textile imports from South Africa over 6 years. In exchange, South Africa is reducing its tariffs on textile imports from the EU over 8 years to one-half of South Africa's standard most-favored-nation tariff rate.

Foreign Trade

South Africa's trade deficit in textiles and apparel narrowed from $434 million in 1997 to $237 million in 2001 (table K-13). The apparel trade balance improved from a deficit of $32 million in 1997 to a surplus of $37 million in 2001, reflecting an increase in exports. The trade deficit in textiles narrowed from $402 million in 1997 to $275 million in 2001, possibly reflecting reduced domestic demand as currency devaluation made imported textiles relatively more expensive in domestic markets.[47]

Both the textile and apparel industries are oriented toward the domestic market. Only a few firms export, most of which are Asian-owned.[48] Apparel exports have been induced by the U.S. AGOA program, with exports not starting until 2002. Despite the greater need for the apparel industry to focus on exports as a strategy to survive increased foreign competition in 2005, the textile industry may be the more advanced in its restructuring to date.[49] South African apparel firms at present are reportedly having difficulty in building export markets

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[43] Ibid.

[44] Brian Brink, interview by USITC staff.

[45] U.S. Department of State telegram 282, "World Textile Trade Without Quotas," prepared by U.S. Embassy, Maseru, Lesotho, Apr. 29, 2002. The SACU 407 rebate program is thought to encourage exports from SACU countries, but not to encourage regional economic integration between SACU members.

[46] Despite the EU preferences, South Africa cannot export easily to EU markets because of competition there from India and Bangladesh, whose apparel goods enter the EU free of quota. Industry official, interview by USITC staff, Durban, Feb. 28, 2003.

[47] From first quarter 2002 to first quarter 2003, however, the rand went from roughly 11.5 to 8.4 rand per U.S. dollar, an appreciation of more than 25 percent.

[48] Industry official, interview by USITC staff, Durban, Feb. 28, 2003. Eight firms reportedly account for most of South Africa's apparel exports.

[49] Miriam Velia, researcher, interview by USITC staff, University of Natal, Durban, Mar. 2, 2003.

even with the market access preferences under the AGOA. The apparel industry cites shortages of or higher prices for inputs such as cotton fiber, yarns, and fabric, due to higher demand for these inputs brought on by the AGOA program. The textile industry has plans to expand spinning and weaving in response,[50] but presently apparel firms are losing orders for lack of sufficient inputs such as fabrics.[51]

Imports

South Africa's imports of textiles decreased by 25 percent during 1997-2001 to $508 million (table K-13). The EU is the largest foreign supplier of textiles to South Africa, providing roughly one-quarter of South Africa's textile imports, with Korea, Taiwan, and China as other significant suppliers. South Africa's imports of apparel remained fairly stable during 1997-2001, totaling $200 million in 2001. China is by far the largest supplier of apparel to South Africa, followed by India, Malawi, the EU, and Hong Kong.

Exports

South Africa’s textile exports fell from $273 million in 1997 to $230 million in 1998, and remained between $230 million and $240 million in the years 1999-2001 (table K-14). In 2001, the EU was South Africa's major export market for textiles (28 percent), followed by the United States (13 percent). Mauritius was another important export market for South African textiles (10 percent), as well as Brazil and Australia (5 percent each). Of $238 million in apparel exports in 2001, the United States was South Africa's major overseas market (61 percent), followed by the EU (22 percent).

In 2001, 43 percent of South Africa's textile exports went to quota markets (the EU, the United States, and small amounts to Canada) and 83 percent of South Africa's apparel exports went to these markets. Whereas the percentage share of South African textile exports going to quota markets remained fairly stable from 1997 to 2001, the share of apparel exports to these markets increased from 65 percent in 1997 to 83 percent in 2001. On average, South Africa is dependent on quota markets for roughly two-thirds of its textile and apparel export revenues.

U.S. imports of textiles and apparel from South Africa fluctuated between 40 and 50 million square meters equivalent (SMEs) during 1997-99 (table K-15). Following implementation of the AGOA in October 2000, textile and apparel imports from South Africa rose from 55 million SMEs in 2000 to 75 million SMEs in 2002. Apparel accounted for two-thirds of the imports and textiles the remaining one-third. Apparel was the major growth category during 1997-2002, increasing from 23 million SMEs to 50 million SMEs. The principal apparel imports were cotton pants and knit tops.

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[50] Brian Brink, interview by USITC staff.
[51] Miriam Velia, interview by USITC staff.

Table K-13
South Africa: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of employees:					
Textiles	75,845	58,267	53,997	55,476	53,372
Knitting mills (fabrics and apparel)	18,556	14,569	11,661	11,150	10,701
Apparel	125,005	119,657	122,380	125,237	122,513
Total	219,406	192,493	188,038	191,863	186,586
Index of physical volume of production (1995=100):					
All manufacturing	103.9	101.2	101.2	106.0	109.4
Textiles	101.5	91.4	91.2	93.5	94.8
Apparel	94.1	87.3	88.7	82.7	78.8
Installed spinning capacities:					
Short-staple spindles (*1,000*)	610	524	524	228	169
Long-staple spindles (*1,000*)	64	70	70	65	65
Open-end rotors (*1,000*)	23	25	25	14	14
Installed weaving capacities:					
Shuttleless looms (*number*)	3,650	2,930	2,930	1,330	1,020
Shuttle looms (*number*)	530	400	400	260	([1])
Production:					
Spun yarns *(1,000 tons)*	99	87	90	93	93
Fabrics *(million square meters)*	657	557	580	556	525
Woven fabrics (*million square meters*)	487	414	415	420	386
Knitted fabrics (*million square meters*)	170	143	165	136	139
Carpets *(million square meters)*	29	30	27	32	30
Fiber consumption:					
Manmade fibers *(1,000 tons)*	168.9	167.0	163.3	[2] 161.5	[2] 177.2
Cotton *(1,000 tons)*	83.0	75.0	73.0	[2] 59.0	[2] 66.5
Wool *(1,000 tons)*	9.8	8.7	10.5	[2] 11.0	[2] 5.5
Other *(1,000 tons)*	12.2	12.4	11.5	[2] 10.2	[2] 11.9
Total *(1,000 tons)*	273.9	263.2	258.3	[2] 241.6	[2] 261.1
Foreign trade:					
Exports:					
Textiles (*million dollars*)	272.8	229.9	234.7	240.2	233.3
Apparel (*million dollars*)	169.0	150.3	178.9	217.9	237.7
Total *(million dollars)*	441.8	380.2	413.6	458.1	471.0
Imports:					
Textiles (*million dollars*)	675.1	595.1	559.8	567.2	507.9
Apparel (*million dollars*)	200.7	189.8	198.0	222.4	200.3
Total *(million dollars)*	875.8	784.9	757.8	789.6	708.2
Trade balance:					
Textiles (*million dollars*)	-402.3	-365.2	-325.1	-327.0	-274.7
Apparel (*million dollars*)	-31.7	-39.5	-19.1	-4.5	37.4
Total *(million dollars)*	-434.0	-404.7	-344.3	-331.4	-237.3

[1] Not available.
[2] Preliminary.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data from the Textile Federation of South Africa, *South African Textile Statistics & Economic Review 2001/2002* (Bruma, South Africa); Statistics South Africa; International Textile Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues; and Mollett (2001). Trade data are United Nations data as reported by South Africa.

Table K-14
South Africa: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	30	29	27	33	31
European Union	73	82	78	71	65
Canada	5	4	4	3	4
Subtotal	108	114	109	106	101
All other:					
Mauritius	4	4	9	16	24
Brazil	15	10	8	13	11
Australia	15	14	14	13	11
Other	131	89	95	93	87
Subtotal	165	116	126	134	132
Grand total	273	230	235	240	233
Apparel (SITC 84):					
Quota markets:					
United States	48	61	79	117	144
European Union	61	57	67	60	52
Canada	1	1	([1])	([1])	1
Subtotal	109	119	146	178	197
All other	60	32	33	40	41
Grand total	169	150	179	218	238
Textiles and apparel:					
Quota markets:					
United States	78	90	106	150	176
European Union	134	139	145	131	117
Canada	6	4	4	3	5
Subtotal	217	233	255	284	298
All other	224	147	159	174	173
Grand total	442	380	414	458	471
	Percent				
Share of exports going to quota markets:					
Textiles	40	50	46	44	43
Apparel	65	79	82	81	83
Average	53	65	64	62	63

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table K-15
Textiles and apparel: U.S. general imports from South Africa, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	49,959	41,659	45,383	55,181	59,319	74,614
1	Apparel	23,209	22,185	25,737	37,925	47,602	50,461
2	Textiles	26,750	19,474	19,645	17,255	11,717	24,153
11	Yarns	20,932	13,284	13,537	9,815	2,627	1,909
12	Fabrics	2,925	4,811	4,736	5,809	6,506	18,677
30	Cotton textiles and apparel	22,020	19,044	23,693	33,267	41,939	37,712
40	Wool textiles and apparel	1,263	1,013	1,121	1,728	2,992	2,899
60	Manmade-fiber textiles and apparel	26,653	21,571	20,442	20,031	14,280	33,947
222	Knit fabric	416	371	1,022	1,266	1,719	2,084
223	Nonwoven fabric	104	483	390	262	1,217	8,686
229	Special purpose fabric	1,669	3,138	2,947	3,587	2,827	2,484
239	Babies' apparel	44	83	66	256	1,006	1,436
338	Cotton knit shirts, men/boys	2,243	2,501	3,300	4,855	7,108	6,749
339	Cotton knit shirts, women/girls	3,798	3,835	4,100	9,094	9,685	8,408
340	Cotton not knit shirts, men/boys	7,233	4,622	4,003	3,998	3,569	1,289
341	Cotton not knit blouses	137	19	50	94	163	193
347	Cotton trousers, men/boys	1,468	1,675	3,033	5,374	7,516	7,114
348	Cotton trousers, women/girls	692	680	2,559	2,697	6,486	5,734
351	Cotton nightwear	3,687	1,522	1,954	2,330	1,221	1,341
352	Cotton underwear	26	1	44	8	128	519
433	Wool suit-type coats, men/boys	60	76	140	224	348	895
443	Wool suits, men/boys	312	412	227	84	177	312
447	Wool trousers, men/boys	27	31	56	34	125	550
635	Manmade-fiber coats, women/girls	([2])	27	172	586	419	2,516
647	Manmade-fiber trousers, men/boys	474	722	163	1,172	1,615	1,539
648	Manmade-fiber trousers, women/girls	249	15	220	879	934	2,439
652	Manmade-fiber underwear	0	0	0	0	660	2,001

[1] To administer the U.S. textile and apparel quota program, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified from statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number "1" represents total imports of apparel, while "31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.