



GHANA'S TEXTILE AND APPAREL PERFORMANCE UNDER AGOA

**Ghana Chamber of
Commerce & Industry**



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1. Introduction & General Overview

The African Growth and Opportunity Act (AGOA) is an initiative of the US government to provide market access to eligible sub-saharan African countries to enter the US market. AGOA provides trade preferences for quota and duty-free entry into the United States for certain goods, expanding the benefits under the Generalized System of Preferences (GSP) program. This initiative of the US government seeks to expand U.S. investment and trade with sub-saharan Africa, encourage economic integration, stimulate economic growth, and facilitate sub-Saharan Africa's integration into the global economy. The agreement was signed into law by President Clinton in May 2000.

With Ghana's credentials as a beacon of democracy on the African continent and meeting the AGOA eligibility criteria including progress towards the establishment of a market-based economy, rule of law, economic policies to reduce poverty, protection of internationally recognized worker rights, and efforts to combat corruption, it became a member when the initiative was first introduced. Forty-one sub-saharan African countries as at August 2014 were eligible for AGOA benefits.



Much as AGOA covers most sectors of trade and investment, textiles and apparel received detailed attention in the agreement due to its importance in the socio-economic development of African countries and the fact that textiles and apparels are not included in the GSP. Thus, while the US GSP covers about 4,600 products that receive duty free treatment; AGOA expanded the list to about 6,400 products, and includes textiles and clothing for the first time. Since its inception, AGOA has helped to increase trade between Ghana and U.S. However, there are reports that Ghana including other African countries has not made maximum use of the agreement. The African Development Bank reports that the low utilization of AGOA preferences by beneficiary countries is in stark contrast to the aggressive export strategies that other developing countries like Bangladesh, Cambodia and Vietnam have adopted to access the US market. These are countries that share many of same infrastructure challenges facing Sub-Sahara African countries.

Irrespective of the low utilization of AGOA preference, its inception in 2000 has acted as a catalyst to Sub-Saharan Africa (SSA) trade with US particularly in the oil, footwear, vehicles and parts, clothing and textiles sectors. According to the AGOA.info website, U.S. imports from AGOA countries have grown from \$8.2 billion in 2001 to \$26.8 billion in 2013, a threefold increase. Non-oil AGOA trade has increased almost fourfold during the same period from \$1.4 billion to almost \$5 billion. The AGOA officials figures say US. direct foreign investment (FDI) stock in sub-Saharan Africa has also increased from approximately \$9 billion to \$35 billion. And according to the African Coalition on Trade, AGOA-related investment has resulted in the creation of some 300,000 jobs in sub-Saharan Africa and almost 120,000 jobs in the United States. In the apparel sector alone, AGOA is estimated to have created as much as 350,000 jobs in SSA since 2001 and some 100,000 jobs in the US economy (AfDB, 2013).



Under the AGOA rules of origin, apparel made in qualifying Sub-Saharan African countries from domestically produced fabric and yarns, or from fabrics and yarns produced in AGOA-beneficiary countries in Sub-Saharan Africa, qualifies for preferences. Such market access into the U.S. is subject to a quantitative restriction. Imports of textiles and clothing under AGOA into US were restricted to not more than 1.5% of total US imports of products in 2001. This is currently 3.5% of overall garment imports by the United States from all sources. To date, Ghana has not been able to meet this threshold. The cap is measured in Square Meter Equivalents (SMEs), and has no dollar equivalent. Rather, it is based on the aggregate SMEs of all apparel articles imported into the US in the preceding 12-month period for which data is available

To qualify, articles of textiles or clothing should be produced from materials produced in the US or Sub-Saharan African beneficiary countries. The textiles and clothing provisions are not available to all AGOA eligible countries as they need an approved visa system and effective enforcement and verification procedures.

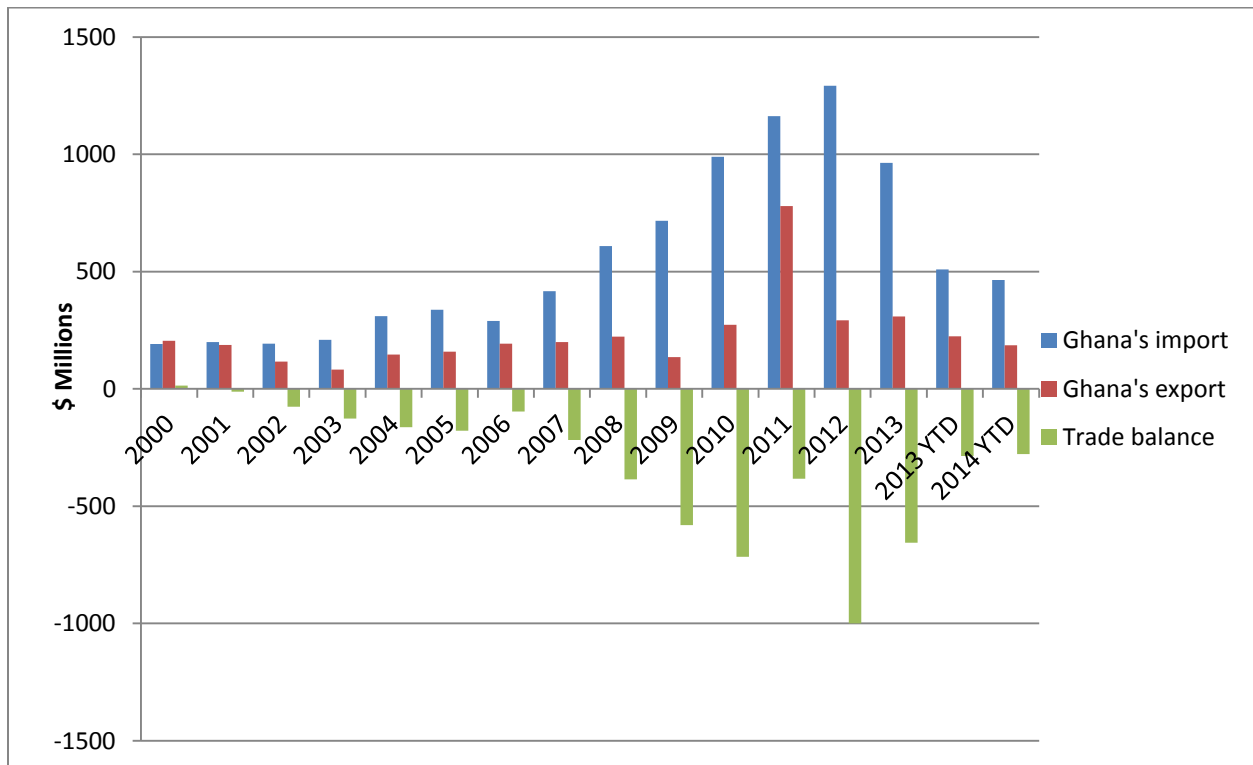
The current AGOA comes to an end in 2015. However, the 2014 meeting of Africa leaders by the US President, Barack Obama in Washington, DC to discuss trade and investment, security, democratic development, and how to achieve a better quality of life for all Africans gives a clear indication that the US will continue its trade and investment relations with Africa and therefore the AGOA initiative will be renewed in 2015. One challenge with the AGOA is that because it is not a negotiated agreement, the US is at liberty to have it withdrawn any time or exclude Ghana from the initiative.



2. Bilateral Goods Trade between Ghana and United States

Trend analysis of goods trade between Ghana and US indicate that there have been increases in trade in goods since the inception of AGOA in 2000 (figure 1).

Export trade to US grew by more than 280 per cent between 2000 and 2011; while import the same period increase by more than 525 per cent reaching over US \$1 billion in 2011. Ghana's top import categories include machinery, vehicles, oil, and cereals and major export to US includes energy related products.



Note: Year-to-date (YTD) is January-June

Figure 1: All Sector Trade: Ghana-United States

Source: GCCI Research Department with data from TRALAC

While trade remains below US \$500 million for a considerable number of years, this began to increase after seven years of signing AGOA. Ghana however recorded deficit in this trade relation for the entire period under review. The total export and import value between Ghana and US after 2012 is on a decline.

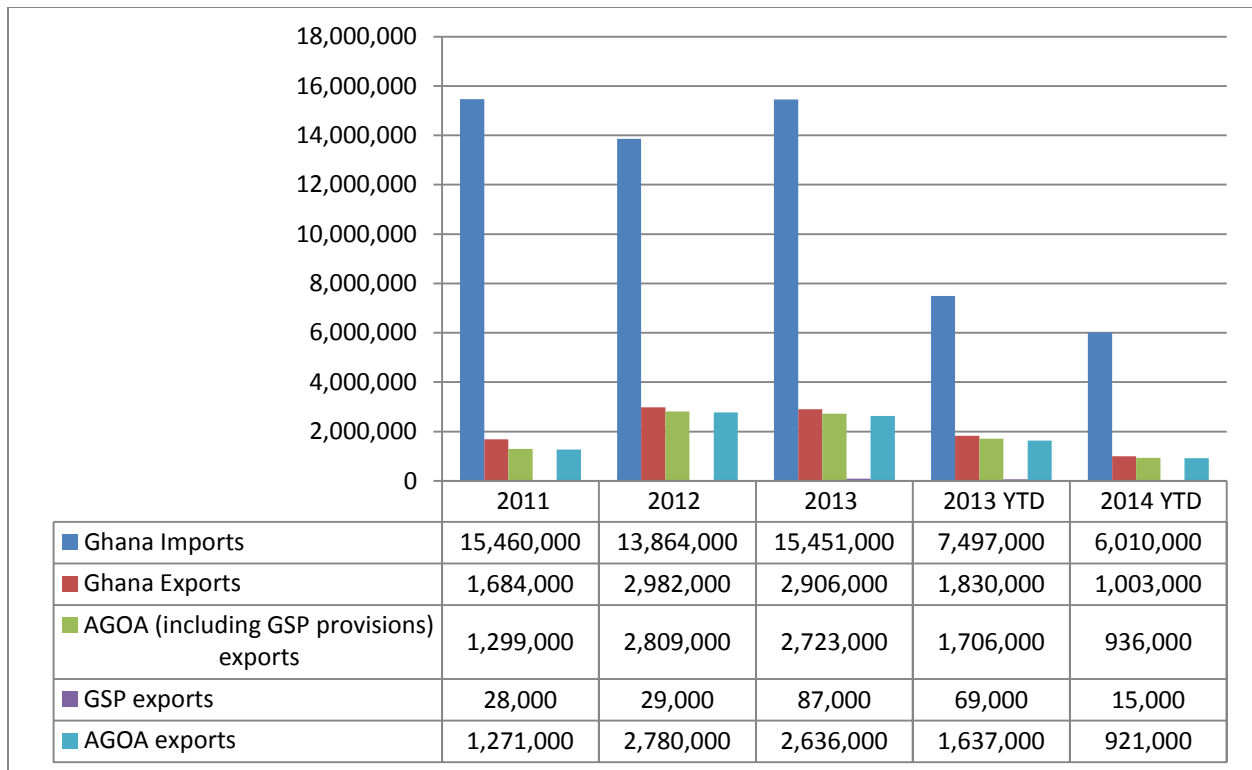


3. Textiles and Apparel Trade: Ghana –United States

The clothing industry is a good source of employment, particularly for women. The clothing industry is labour intensive while the textile industry is more capital intensive. Textiles and apparel sector requires significant investments and it is a major sector that Ghana can focus on in reducing youth unemployment.

The key challenges facing the clothing and textile sectors as seen by industry representatives are the loss of domestic market share to imports, together with low levels of profitability and investment; and the alarming level of job losses and a shortage of skills. It is also believed that some Asian countries flood local and international markets with low priced textile and textile products. Most of these products which are counterfeit and under-valued textiles and clothing originating from the east in particular continually erodes Ghana's revenue base and has caused numerous job losses.

Figure 2 shows that trade between Ghana and US has been slowing for the past three years. Textiles and Apparel import into Ghana far outweigh apparel and textiles export to the US. Export of textiles and apparel under the AGOA initiative increased from US \$1,271,000 in 2011 to US \$2,636,000 in 2013 but lesser than export for 2012. Export under GSP on the other hand increased from US \$28,000 in 2011 to US \$87,000 in 2013.



Note: Year-to-date (YTD) is January-June

Figure 2: All Sector Trade: Ghana-United States

Source: GCCI Research Department with data from TRALAC

The difference between the export figures and AGOA (including GSP provisions) means that some Ghanaian manufacturers export their produce without claiming any preferences. This gives a good reason to educate manufacturers on the benefit under AGOA.



4. Findings

AGOA no doubt has led to improvement of trade between Ghana and US. The overall trade however indicates that Ghana has not exported enough to offset its imports. Textiles and apparel sector which has a huge potential to employ most of the unemployed youth has also not benefitted much from the programme. The trade deficit in the textiles and apparel sector is very huge and calls for targeted investment to upscale Ghana's export to the US.



5. Recommendations

Based on the findings of this paper, the following recommendations are proposed:

5.1 Set up Integrated Textile Parks

The government should establish textile parks and schemes to assist small and medium entrepreneurs in the textile industry to clusterize investments in the textile parks by providing financial support for world class infrastructure in the parks. Textile parks should be developed in designated areas indicated by the Ghana Investment Promotion Center (GIPC). These new textile parks should be designed to bring in private sector investment into the sector and generate employment. Again, the development of general trade infrastructure, especially in the area of trade facilitation should be enhanced.

5.2 Support for Trade and Investment Promotion Agencies

Government's effort at promoting trade and investment should be increased. There should be particular focus on countries with which Ghana has agreements with including the US under AGOA. There should be support and capacity building for export and investment promotion agencies and associations such as the Ghana Chamber of Commerce and Industry (GCCI) to enable their members gain more from the AGOA initiative.

5.3 Raw Material Development

The cotton industry needs to be supported to grow more cotton for the textile manufacturing industry. Availability of raw material is critical if Ghana is to produce textiles and apparels on time for the export market.

5.4 Intellectual Property

Government's effort in intellectual property should be enhanced. Counterfeiting and piracy of Ghanaian textiles and apparels should be dealt with by the government. Again, companies in Ghana should be encouraged to register their intellectual properties.



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