CCA African Growth and Opportunity Act (AGOA) Private Sector Forum
Plenary and Workshop Summaries
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AGOA Private Sector Forum Workshop Panel A
African Textiles and Apparel: Adapting To the End of the MFA and the Impending Expiration of AGOA's Third-Country Fabric Provision

Moderated by **Paul Ryberg**, President, Africa Coalition for Trade
Panelists:

- **Florizelle Liser**, Assistant USTR for Africa
- **Jas Bedi**, Chairman of African Cotton and Textile Industries Federation (ACTIF)
- **Wilson Hunt**, President, Champro Sports Equipment
- **Julie Hughes,** Senior Vice President for International Trade and Government Relations of the U.S. Association of Importers of Textiles and Apparel (USA-ITA)
- **Kenneth W. Winston**, **Jr.,** Member, Southern Textile Exchange
- **Stephen Lande**, President, Manchester Trade

Introduction
After growing by more that 30 percent per year on average since 2000, U.S. apparel imports from Africa fell by 16 percent in 2005. Dozens of apparel factories that opened in response to AGOA benefits have since closed and an estimated 100,000 jobs have been lost. Surging imports from China and other low-cost Asian producers, promoted by the ending of the World Trade Organization's (WTOs) Multi-Fiber Arrangement (MFA) system of quotas in January 2005, is the key explanation behind the drop in apparel imports from African countries. With AGOA's third-country fabric input provision, which accounts for 90 percent of duty-free apparel imports from Africa, scheduled to expire in September 2007; many experts fear that Africa's declining apparel trade could be further devastated.

Key Discussion Points
Despite the ending of quotas on Chinese apparel imports under the MFA, eligible AGOA eligible African countries still enjoy benefits of duty-free access to the U.S. market. Prior to AGOA's enactment, African countries held less than 1 percent of the U.S. import market. However, AGOA benefits enabled African countries to increase their market share to 2.6 percent (more than double the starting value). This share dropped to 2.3 percent in 2005. African countries need to find ways to produce more competitively and do so by focusing on product diversification, vertical supply-chain integration, and regional market integration.

The U.S. has not as yet developed an official position on a post-AGOA trade policy framework for Africa. The top 20 apparel suppliers to the U.S. are non-African countries (China 26.42 percent, Mexico 7.55 percent, Honduras 5.61 percent, Bangladesh 5.39 percent, and Indonesia 3.93 percent). Additionally, the five fastest-growing suppliers to the U.S. are (Cambodia +38 percent, Bangladesh +20 percent, Indonesia +16 percent, Vietnam +16 percent, and India +12 percent). U.S. buyers value the following six characteristics in international suppliers: 1) speed to market, 2) quality, 3) value/cost effectiveness, 4) compliance (including Human Rights, U.S. Customs, labor, etc), 5) vertical supply-chain integration and 6) predictable supply rates.

Africa-based apparel producers struggle to ensure predictable supply rates, and without consensus on the third-country fabric input provision, U.S. buyers will likely choose to source apparel elsewhere. Primary export challenges for Africa-based producers include quality, quantity, time-to-market, infrastructure, and negative perceptions of the market.

Africa-based companies must develop products that qualify for high international tariff duties such as blend materials to fully leverage the competitive advantages of AGOA. Additionally, the third-country fabric provision should be extended beyond 2007.

Conclusion

AGOA eligible African countries remain strong locations for textile factories; however, the global market is ever-evolving and highly competitive. The textile and apparel industry is particularly vulnerable to competitive market pressures given that garment factories are mobile and can be re-located in matter of months. AGOA is the key facilitating factor allowing African countries to remain competitive. From a business perspective, international apparel companies compare African countries to Asian countries when deciding where to outsource production. Four key factors that U.S. companies evaluate include: duty rates (SSA=0; Asia=15-40 percent); shipping time (SSA= up to 75 days; Asia= avg. 20 days); material availability (generally poor in SSA and usually imported from Asia); and labor costs (SSA= lowest; Asia= low).

Unless the third-country provision available to most AGOA eligible African countries is extended beyond 2007, manufacturers and investors may likely to pursue four alternative sourcing strategies, namely: 1) continued use of third-country fabrics (which would result in an increase of ~40 percent in import duties), 2) use U.S.-made fabric and yarns (at more than double the cost when compared to Asia), 3) use fabric produced in African countries (often not available or expensive), or 4) completely re-locate a factories to Asia. African countries need to increase the production and use of local inputs and materials. Sourcing materials from Asia is costly and counterproductive to long-term regional integration and development priorities. African countries should also focus their efforts on increasing access to markets outside of the U.S. and EU.

AGOA Private Sector Forum Workshop Panel B
Growing Agricultural Trade Under AGOA

Moderated by **Karen Coachman**, Managing Partner, Ghana Pine and President/CEO, African American Alliance Group
Panelists:

- **Bruce McEvoy,** Director, Global Affairs, Seald Sweet, The UNIVEG Group of Companies
- **Donald Mitchel,** Lead Economist, Economic Policy and Prospects Group, World Bank
- **Lloyd Le Page,** Manager, Sustainable Agriculture and Development, Pioneer Hi-Bred- A Dupont Company
- **Bill Guyton,** President, World Cocoa Foundation

Introduction
Emerging agricultural trade in Africa presents opportunities for U.S. businesses to embrace new, market-oriented growth on the continent. The successful growth of agro-industry in Africa will depend on the development of best practices for the sector and the ability of African countries to address key challenges.

Key Discussion Points
Agricultural projects in Africa rarely reach their full potential and in order to increase success, companies need to implement market driven, grower-centric projects that focus on sustaining market access. One of the largest challenges for producers in Africa is to maintain access to international export markets and to produce quality crops. The fact that competitors such as China and Korea are able to speedily fill global production supply gaps makes the need for African countries to build their productive capacity more pertinent.

Sugar could potentially be a large AGOA success story in Africa; if it were included in the legislation. Talks are underway in forums at the WTO, NAFTA, EU, and in the U.S. to decrease sugar tariffs and open up the world market to sugar produced in African countries. AGOA excludes some critical products for African countries such as sugar, largely due to high protectionism in the U.S. However, there is mounting global pressure for policy reform that would allow greater access for heavily protected products.

Pioneer Hi-Bred has adopted a successful “long look” strategy in Africa. The company strives to help producers gain broader knowledge of their consumers. One of the keys to success in African agriculture is increasing farmer productivity and maintaining supply chain support. Pioneer Hi-Bred is renewing its commitment to agriculture as a platform for economic growth and is pushing for new U.S. and African legislation to support this effort, particularly in the area of small-and-medium-sized (SME) enterprise development.

The World Cocoa Foundation employs several techniques to help cocoa farmers’ increase their productivity and income, including:

- Building partnerships between farmers, governments, NGOs, and customers
- Encouraging responsible labor and environmental practices

- Increasing farmer education through its Sustainable Tree Crops Program—a hands on learning program focused on improving yield, crop protection, and responsible labor practices

Private-to-private partnerships are an integral part of agricultural SME development. Harmonization between African countries regarding seed laws and biotechnology remains challenging. The Common Market for Eastern and Southern Africa (COMESA) is working to address obstacles to regional unification and integral agricultural policy issues. Private sector representatives agree that the U.S. business community needs to develop a greater presence in ongoing regional discussions. There is potential to use agricultural products as energy alternatives—an area many U.S. businesses are focusing on in Africa. Palm oil and sugar are two products currently being explored as alternative energy sources.

Conclusion

Agriculture and agro-industry have tremendous growth potential in Africa. However, fundamental policy changes need to be undertaken in order to foster large-scale, sustainable successes. Firstly, trade-friendly policies need to be put in place, especially by the world's largest agricultural products importers, namely: Japan, the European Union, and the United States.

Farming in Africa can benefit greatly from becoming more business oriented. Business-to-business partnerships can provide a stable development and growth platform for African farmers and help them gain additional market access, while simultaneously increasing productivity and efficiency. Finally, African farmers need to work to continuously increase their knowledge about regional and international customers and markets.

AGOA Private Sector Forum Workshop Panel C
"South Africa: A case study for AGOA success"

Moderated by **Tony Carroll**, Vice President, Manchester Trade
Panelists:

- **Tshediso Matona,** Acting Director-General, Department of Trade and Industry (DTI), South Africa
- **Jeff Werner**, Manager, International Government Affairs, DaimlerChrysler
- **Blacky Komani**, Karell's African Dream Vacations

Introduction

a) South Africa has met considerable success under AGOA; however this success is far more complex than first appears in that includes domestic policy, domestic investment, and macro-level support. While South Africa has a favorable trade balance with the U.S., the country needs to look at new ways to solidify and expand this trade relationship.

b) Numerous trade preferences exist for African countries; however, African countries need to develop stronger, integrated investment strategies in order to attract capital necessary for development. Facilitating organizations such as the New Partnership for Africa's Development (NEPAD) can help African countries address regulatory reform, infrastructure development, and investment facilitation.

Key Discussion Points
South Africa actively embraced AGOA after the trade legislation was enacted in 2000. The country conducted an assessment of qualified AGOA products and moved to export those products with the greatest competitive value. As a result, South African exports under AGOA grew to a total of $1 billion in less than three years. However, South Africa's trade under AGOA slowed in 2005 largely due to the following factors: 1) the strong value of the South Africa rand against the U.S. dollar; 2) South Africa's exemption from the third-country fabric input provision under AGOA; 3) technical barriers to trade, particularly in the agriculture sector; and 4) certain key products being excluded from AGOA.

The development of the automotive industry in South Africa requires high levels of investment in infrastructure, the creation of value-added products, and the utilization of South Africa as an investment platform for growth, not only in South Africa, but in global markets also. DaimlerChrysler has been at the forefront of competitive automotive manufacturing development in South Africa and has experienced an annual average growth rate of 11 percent in the country. South Africa has developed an integrated supply-chain in the automotive sector for inputs such as leather seats and catalytic converters. Other companies that have met success include General Motors, Toyota, and BMW. At present, 35,000 South African jobs are tied to the automotive industry.

Tourism is booming throughout Africa and is on the rise in South Africa in particular, which hosted 7 million tourists in 2005. Tourism is a vital industry in that it encourages infrastructure development and stimulates job creation. Karrell Travel markets and sells vacation packages to a variety of southern African destinations from Florida in the U.S. The United States' Delta Airlines plans to fly to South Africa from the U.S. commencing in 2006, and these plans are welcome as they will create much needed competition, thereby reducing fares and increasing flight services to the country.

Conclusion

Corporate Social Responsibility (CSR) programs are a key element of doing business in South Africa and public-private partnerships have increased in importance. South Africa needs to institute and maintain investment facilitating policies in key areas such as the automotive sector and tourism. The country will benefit from investments in skills training and business infrastructure development. South Africa can be more effectively used as a “gateway to southern Africa” and regional-focused business, investment, and tourism ventures should be encouraged.

AGOA Private Sector Forum Plenary 1
Infrastructure Development

Moderated by **Joe Sills (Ret.)**, Former Spokesperson for the United Nations Secretary General
Panelists:

- **The Honorable Erastus Mwencha**, Secretary General, Common Market for East and Southern Africa States (COMESA)
- **William E. Bucknam**, Esq., Vice President and General Counsel, Moving Water Industries
- **John Richter**, Regional Director for Africa, U.S. Export-Import Bank

Introduction
Inadequate infrastructure is a frequently cited impediment to economic growth in sub-Saharan Africa. Most governments realize the importance of having efficient transportation systems, communications networks, ports, and public infrastructure. Yet they have too often lacked the financial resources necessary to build, maintain, and support infrastructure systems. Panelists explore existing and emerging financing and risk insurance opportunities for U.S. companies that are ready to engage in infrastructure ventures in Africa.

Key Discussion Points
The Common Market for Eastern and Southern Africa (COMESA) is comprised of 19 member countries. COMESA formed a Free Trade Area in 2000 and is presently developing a customs union. Infrastructure development will unlock supply-side constraints for the regional bloc. The development of privately owned roads and railways for moving large goods between member countries should be encouraged. The "soft" elements of infrastructure development namely: customs unions, free trade areas, investment treaties, and regional insurance houses, should also be prioritized. Investment should also be targeted towards housing infrastructure development.

The lack of access to safe drinking water is a huge problem for African countries and outbreaks of cholera and related diseases have become more frequent. Moving Water Industries uses its Solar Pedaflow Technology in Africa to help address access to safe drinking water in rural areas. The U.S. African Development Foundation (ADF) should be approached as good source for infrastructure development projects financing.

The U.S. Overseas Private Investment Corporation (OPIC) and the U.S. Export-Import Bank (Exim) offer solid options for investment and financing for U.S. business growth in Africa. Top-performing U.S. industries engaging these organizations include aviation, manufacturing, power, oil and gas, and financial services sectors. U.S. trade with sub-Saharan Africa is growing, yet the U.S. has a relatively small share of the total African market. The U.S. Exim Bank has carried out 850 transactions in six years in SSA with a value of $3.2 billion. To facilitate a transaction, Exim requires reasonable assurance of repayment and good business partners with sound financial standing.

Conclusion
The U.S. Exim Bank plans to schedule a training session for African business professionals in 2006 to help them gain a better understanding of how to finance exports. To date, 120 financial institutions have been invited to attend the trainings session in the U.S. African banks are much more cautious when it comes to granting

export financing to domestic businesses. The U.S. Millennium Challenge Corporation (MCC) should consider developing a regional component that can leverage the shared experiences of top-performing countries.

AGOA Private Sector Forum Plenary 2
Financing Investment and Trade

Moderated by **Joe Sills (Ret.)**, Former Spokesperson for the United Nations Secretary General
Panelists:

- **James C. Polan**, Vice President for Small and Medium Enterprises – Overseas Private Investment Corporation (OPIC)
- **John Niepold,** Portfolio Manager – Africa, Emerging Markets Management, L.L.C.
- **Steve Cashin,** Founder and CEO – PanAfrican Capital Group, LLC

Introduction
Access to finance is a major obstacle for both U.S. businesses seeking to invest in Africa, as well as local entrepreneurs that wish to expand production or service provision. African countries have also long suffered from the perception of not being viable investment destinations because of corruption, political instability, and insecurity. Panelists outlined financing opportunities available to U.S. investors in Africa, as well as impressive returns on investment achieved in Africa by their companies within the past decade.

Key Discussion Points
The main financing priorities of the Overseas Private Investment Corporation's (OPIC) are housing, infrastructure, technology, and in terms of regions, sub-Saharan Africa, member states of the Central American Free Trade Agreement (CAFTA)[1], and the frontline states of Central Asia. In order to be eligible for OPIC assistance, a business venture or partnership should have at least 25 percent U.S. equity and limited government participation (less than 50 percent). OPIC seriously considers strong business plans submitted by small-and medium-sized enterprises (SMEs) with revenues ranging from $100,000 to $10 million. Both the U.S. and African partner must show a willingness to risk some of their own capital.

James Polan of OPIC observed that the time has come to move beyond micro-loans and that $100,000 to $5,000,000 loans are required to scale up SME efforts. He also argued that it is a myth that financing isn't available for U.S. companies wishing to invest in Africa. Resources are available, but businesses have yet to take full advantage of them. OPIC is currently setting up a program with the Government of Liberia that will track remittances so that the country can benefit from them. Recording remittances will enable Liberia to chart them as income flows. This will in turn make it easier for businesses to use remittances as collateral to obtain loans.

Emerging Markets Management invests in pension funds on behalf of institutions. EMM manages a $17 billion portfolio--$2.5 billion of which has been invested in Africa since 1993. Returns on investment in Africa have been the best in the world. Volatility in African stocks is half that seen in other emerging markets. John Niepold of EMM noted that a trend for mortgage financing has emerged in Africa, one that did not exist as recently as a decade ago.

[1] Members of the Central American Free Trade Agreement are Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

PanAfrican Capital Group is an investment banking group with a strong emphasis on financial products. The company also invests in agribusiness, telecoms, and manufacturing stocks. Founder and CEO Steve Cashin believes that African credit ratings are important tools to help investors evaluate risk. Further efforts should be made to provide formal credit ratings for more countries in Africa, thus offering these countries increased access to capital flows in the global financing market.

Conclusion

The plenary offered a far more promising outlook on financing investment and trade than might have otherwise been expected. Panelists reached a general consensus that financing for U.S. companies interested in African investments is far more plentiful than commonly thought. However, the challenge lies in matching available funding with sound, well-conceived business ideas necessary to earn profits.

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