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The Other Trade War—The US and Rwanda on Second-Hand Clothing

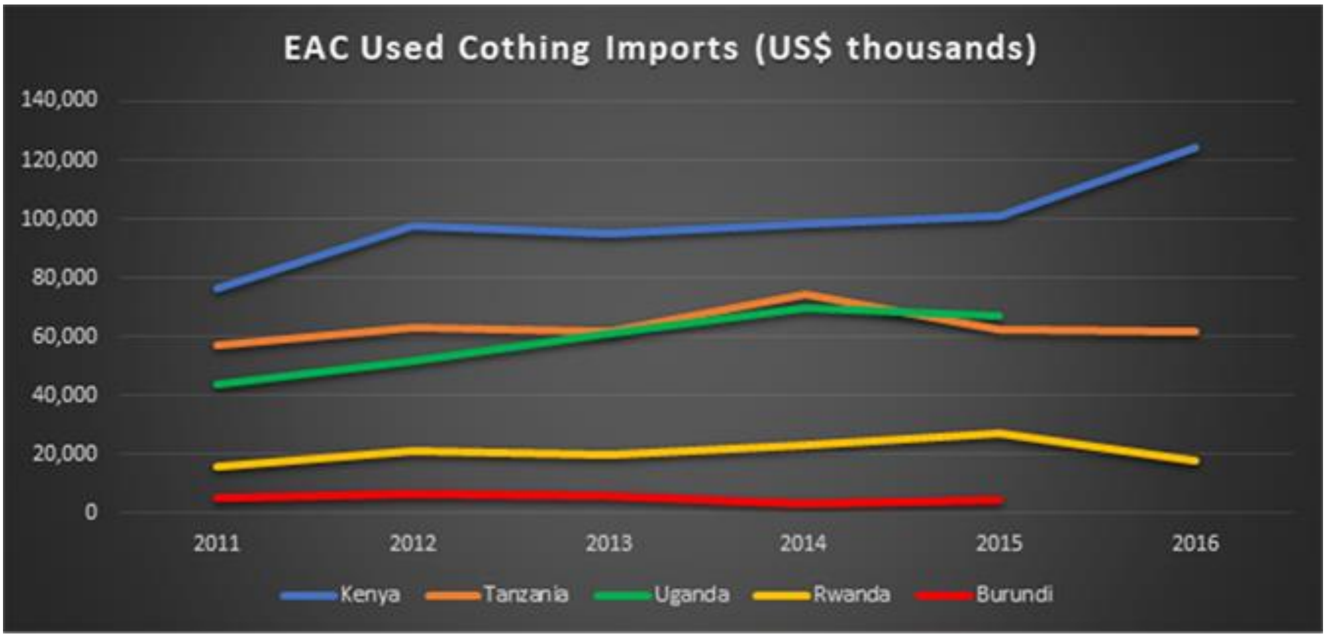
While recent headlines regarding global trade have been dominated by the looming trade war and tariff escalations between the United States and the European Union, the United States and China, as well as between the United States and its Northern neighbour members of the North American Free Trade Agreement (NAFTA), the United States is also engaged in a trade disagreement with Rwanda over second-hand clothing.

The disagreement stems from a 2016 decision taken by member countries of the East African Community (EAC)—specifically Kenya, Rwanda, Tanzania and Uganda—to raise tariffs on the importation of second-hand clothing with a view to eventually banning the importation of used clothes and shoes across the East African region by 2019.

In a market that is already large and destined to expand, the policy contemplated by EAC member countries has the potential to boost industrialization and stimulate manufacturing production in member states and throughout the region. According to most recent estimates US$4 billion of worn clothes crossed borders in 2016, with about 70% originating from Europe and North America and most destined to Africa, which is the largest market for second-hand clothing in the world.

In response, the United States Trade Representative (USTR) threatened to review trade benefits to Kenya, Rwanda, Tanzania and Uganda under the African Growth and Opportunity Act (AGOA)—a non-reciprocal preferential market access scheme extended by the United States to qualifying African countries with the threat of termination from the list of beneficiaries if the review detected any form of violation or if the beneficiaries were deemed to not be adhering to eligibility required. Kenya, Tanzania and Uganda subsequently backed away from plans to impose the restrictions.

The USTR decision followed a petition by the US-based Secondary Materials and Recycled Textiles Association (SMART), brought under the new AGOA legislation, alleging that East African restrictions on imports of used clothing “imposed significant hardship” on the US used-clothing industry and violated AGOA rules. SMART alleges that the tariff hikes would negatively impact 40,000 US jobs, as well as thousands of jobs in countries that are members of the East African Community, should the ban go into effect. The East African Community is one of the most important markets for US used clothing exports, with direct American exports to the EAC member countries estimated at US$53 million and representing about 19.5% of the sub-region’s imports of used clothing (worth US$274 million) in 2015.



Source: USAID East Africa Trade Hub

The review by the USTR found that the proposed tariff hikes and import ban harms the US used clothing industry and is inconsistent with the AGOA criteria requiring beneficiary countries to eliminate barriers to US trade and investment. The review also concluded that concessions made by the three countries to refrain from phasing in a ban and commitment to take steps to eliminate prohibitive tariffs warranted that these countries continue to enjoy AGOA benefits. However, the decision by Rwanda to continue with the tariff increases and the eventual ban, resulted in the USTR suspending duty-free access for Rwanda. The suspension applies to all AGOA-eligible apparel products from Rwanda and took effect from 28 May 2018.

While not significant in terms of trade value—Rwanda exported approximately US$460,000 worth of textiles and apparel to the US in 2016—the move does show that the "America First" policy articulated and implemented by the Trump Administration is not confined to the US's largest trading partners and clearly illustrates the constraints and challenges posed to African countries on the path to industrialization and economic integration both at the regional and continental level.

Despite being a non-reciprocal US trade assistance programme, interest groups in the United States (such as SMART) have seen AGOA as an opportunity to seek concessions or reciprocity. In this context the 2015 AGOA Act potentially creates a system of structural attrition between the United States and AGOA beneficiary countries by leveraging non-reciprocal preferential access into the US to gain increased access into African markets and potentially undermine industrialization ambitions. In terms of the new legislation, the USTR is geared towards supporting US lobbyists and other groups that seek to advance their economic interests in such markets if these US-based lobbies are aggrieved by some economic policies (trade or investment measures, such as IP or local content, environment, labour) adopted by an AGOA beneficiary country or a trade agreement that the beneficiary country has signed with a third country. Such an aggrieved party can petition the

President to act against such a country by threatening to withdraw or suspend AGOA benefits or remove the country altogether from AGOA. Thus the new AGOA Act threatens to create increased tension in bilateral relations rather than deepening cooperation, and with the US increasingly recognizing the potential of the African consumer market for US exports it could have serious implications for industrial policy autonomy and diversification efforts in African countries.

This challenge faced by the region on the industrial development path is exacerbated by the inability of African countries to strengthen their bargaining power in international trade negotiations both at the regional and continental level, especially as the region contemplates the transition towards the Continental Free Trade Area. Although the decision to hike import duties on worn clothes and eventually phase out imports of such goods was a collective move by member countries of the EAC, leading countries backed down in the face of threats to suspend the benefits extended under AGOA, exposing the large and growing regional market to continued dumping and in the process undermining the burgeoning domestic textile and apparel industry.

According to the British Overseas Development Institute, second-hand clothing now dominates African markets, with Tanzania alone importing US$540 million of worn clothes and US$180 million of new ones, while producing less than US$20 million itself. With Africa's population projected to double within the coming decades, the region could well be committing billions of US dollars to imports of second-hand clothing, costing not thousands of jobs as argued by SMART but millions, and with an increasingly negative incidence on the continent's current account.