

**THE AFRICAN GROWTH AND OPPORTUNITY ACT AND THE TEXTILES AND  
APPAREL INDUSTRY IN KENYA AND SOUTH AFRICA**

A Thesis Submitted to the College of Graduate Studies and Research

In Partial Fulfillment of the Requirements for the Degree of Master of Arts

In the Department of Political Studies

University of Saskatchewan

Saskatoon, Canada

By

Augustine Anane Frimpong

© Copyright Augustine Anane Frimpong, May 2011. All Rights Reserved.

## **PERMISSION TO USE**

In presenting this thesis in partial fulfilment of the requirements for a postgraduate degree from the University of Saskatchewan, I agree that the Libraries of this University may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by the professor or professors who supervised my thesis work or, in their absence, by the Head of the Department of Political Studies or the Dean of the College of Graduate Studies and Research. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the University of Saskatchewan in any scholarly use which may be made of any material in my thesis.

Requests for permission to copy or make other use of material in this thesis in whole or part should be addressed to:

Head of the Department of Political Studies

University of Saskatchewan

9 Campus Drive

Saskatoon, Saskatchewan S7N 5A5

## **ABSTRACT**

This thesis presents an analysis of the economic impact of the African Growth and Opportunity Act (AGOA) in the textiles and apparel industry in Kenya and South Africa, and answers three consecutive questions. First, has AGOA been successful in reinforcing Kenya and South Africa's reform efforts? Second, has AGOA been successful in facilitating the integration of Kenya and South Africa's economy into the global economy? Finally, has AGOA been successful in promoting employment and poverty reduction in Kenya and South Africa? Using the textiles and apparel industry of the two countries as a case study, it was realised that AGOA has achieved much success in contributing to the reformation and integration of the economy of Kenya and South Africa into the global economy. However, it was found that AGOA's success in promoting poverty reduction through economic activities such as trade, investment and employment in the two countries has been mixed. While AGOA has contributed positively to the promotion of economic activities in the textiles and apparel industry in Kenya, the economic problems facing the textiles and apparel industry in South Africa has been exacerbated by AGOA.

This study is important because it draws attention to the economic achievements of AGOA in the textiles and apparel industry in Kenya and South Africa.

## **ACKNOWLEDGEMENTS**

It is through the immense support and contribution of the many people I have encountered at various stages in my life, which has allowed me to study in Saskatoon, Canada away from home. Nothing can convey the depth of gratitude I feel for Professors Hans Michelmann and Joseph Garcea. Their support and encouragement to my academic pursuits is deeply appreciated. My brother, Dr. Richard Frimpong Oppong has also been of enormous support to my academic pursuits.

This thesis would not have been what it is now, if not for the critical and constructive comments of members of my Supervisory Committee; namely Professors Jeffrey Steeves, Kalowatie Deonandan, Donald Story and William A. Kerr. Professor Steeves's passion for clarity and precision in language and writing, Professor Deonandan's extensive and positive critique on my work and Professors Story and Kerr's final appraisal of my work have all proved very useful in the development of this thesis.

**DEDICATION**

To my Brother:

**Dr. Richard Frimpong Oppong**

Thank you for your help and support.

## ABBREVIATIONS

AGOA	African Growth and Opportunity Act
ASGI-SA	Accelerated and Shared Growth Initiative for South Africa
ATC	Agreement on Textiles and Clothing
BCEA	Basic Conditions of Employment Act
BCs	Beneficiary Countries
CSs	Corporative Societies
CSP	Customised Sector Plan
DCCS	Duty Credit Certificate Scheme
DTI	South African Department of Trade and Industry
EPA	Export Processing Act
EPA	Environmental Planning Act
ERS	Economic Recovery Strategy for Wealth and Employment Creation
EPZs	Export Processing Zones
ERP	Economic Recovery Programme
FDI	Foreign Direct Investment
FIPA	Foreign Investment Protection Act
GATT	General Agreement on Tariffs and Trade
HIV/AIDs	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICDC	Industrial Credit Development Corporation

ICTS	Interim Clothing and Textiles Scheme
IDD	Industrial Development Division
ILO	International Labour Organisation
IMF	International Monetary Fund
IPRS	Interim Poverty Reduction Strategy
ISI	Import Substitution Industrialisation
ISPC	Industrial Survey and Promotion Centre
KIEP	Kenya Industrial Estate Program
KIPPRA	Kenya Institute for Public Policy Research and Analysis
LDCs	Least-Developed Countries
LDBDCs	Lesser Developed Beneficiary Developing Countries
LRA	Labour Relations Act
MBs	Marketing Boards
MUB	Manufacturing Under Bond
NIPF	National Industrial Policy Framework
OPEC	Organization of the Petroleum Exporting Countries
PER	Public Expenditure Review
RIDP	Regional Industrial Development Programme
SACU	Southern African Customs Union

SACTWU	South African Clothing and Textile Workers Union
SAP	Structural Adjustment Programs
SOEs	State Owned Enterprises
SSA	Sub Saharan Africa
TIFAs	Trade and Investment Framework Agreements
TIPS	Trade and Industrial Policy Strategies of South Africa
TPSC	Trade Policy Staff Committee
U.S	United States
USAID	United States Agency for International Development
USITC	United States International Trade Commission
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WTO	World Trade Organisation



## TABLE OF CONTENTS

Permission to Use .....	i
Abstract .....	ii
Acknowledgements .....	iii
Dedication.....	iv
Abbreviations.....	v
Table of Contents.....	viii
List of Tables.....	x
<b>CHAPTER 1: INTRODUCTION .....</b>	<b>1</b>
<b>CHAPTER 2: OVERVIEW OF THE TEXTILE AND APPAREL INDUSTRY: A STUDY OF KENYA AND SOUTH AFRICA.....</b>	<b>5</b>
2.1 Introduction.....	5
2.2 Development of the Textiles and Apparel Industry in Kenya (1970-2000).....	5
2.3 Development of the Textiles and Apparel Industry in South Africa (1970-2000).....	10
2.4 Conclusion.....	15
<b>CHAPTER 3: U.S. TRADE POLITICS: AFRICAN GROWTH AND OPPORTUNITY ACT.....</b>	<b>17</b>
3.1 Introduction.....	17
3.2 The Governing Principles of Liberalism.....	18
3.3 The Governing Principles of the African Growth and Opportunity Act: Liberalism.....	21

3.4 Textiles and Apparel Provisions under AGOA.....	24
3.5 Conclusion.....	30
<b>CHAPTER 4: LOOKING INTO THE FUTURE: THE IMPLICATIONS OF REFORM POLICIES IN KENYA AND SOUTH AFRICA’S TEXTILES AND APPAREL INDUSTRY.....</b>	<b>32</b>
4.1 Introduction.....	32
4.2 Overview of the Impact of AGOA in Eligible SSA Countries.....	33
4.3 AGOA and the Textiles and Apparel Industry in South Africa.....	36
4.4 AGOA and the Cotton-Textiles-Apparel Industry in Kenya.....	46
<b>CHAPTER 5: CONCLUSION.....</b>	<b>55</b>
<b>BIBLIOGRAPHY.....</b>	<b>60</b>

## LIST OF TABLES

Table 1:	AGOA Preferences: Apparel and Textiles Eligibility of Kenya and South Africa.....	34
Table 2:	Share of AGOA Textiles and Apparel Trade in the Top Six Sub-Saharan African Countries in 2004 and 2008.....	35
Table 3:	South Africa’s General Exports of Textile and Apparel to the U.S. in U.S. Dollars (2001-2008).....	42
Table 4:	Clothing Manufacturing Employment Strength (2000-2007).....	45
Table 5:	Kenya’s Domestic Textiles and Apparel Market (2003).....	51
Table 6:	Kenya’s General Exports of Textile and Apparel to the U.S. in U.S. Dollars (2001-2008).....	52
Table 7:	The Impact of AGOA and End of Quotas on the EPZ Textiles and Apparel Industry (2000 – 2008).....	53

## CHAPTER 1

### INTRODUCTION

The textiles and apparel industry occupy a prominent economic position, in terms of trade, employment and foreign investment, in the economic development of Kenya and South Africa. However, the combination of international pressures arising from globalisation as well as international commercial policies, including tariff and nontariff barrier reduction on the one hand, and national policies on the other, have brought enormous challenges to the contribution of the industry to economic development. In this study, globalisation is used in its narrowest sense to refer to “the integration of economic activities across borders through markets. The integration of economic activities involves free movement of goods, services, labour and capital, thereby creating a single market in inputs and outputs and full national treatment for foreign investors (and nationals working abroad) so that economically speaking, there are no foreigners.”<sup>1</sup> During the colonial period, Kenya and South Africa played dual economic roles in the international economy. First, they served as markets for natural resource extraction. Second, they served as destinations for value-added manufactured goods imported from Europe. After independence, the governments of Kenya and South Africa adopted protective tariff barriers and import substitution industrialisation (ISI) as strategies for promoting the industrialisation, modernisation and transformation of economic activities from excessive dependence on natural resource extraction.

Despite the popularity of ISI, the success chalked up was short lived. Throughout the 1980s and 1990s, deteriorating economic conditions in the two countries compelled their government to implement what I call ‘loan for economic reforms.’ Sanctioned by the International Monetary Fund (IMF) and the World Bank, the economic recovery programme (ERP) which was implemented in these countries to obtain IMF/World Bank support, involved privatisation of State Owned Enterprises (SOEs), deregulation and trade liberalisation. Indeed, the objective of the ERP was to promote poverty reduction through the integration of the economy of Kenya and South Africa into the global economy. However, years after the implementation of the ERP, economic conditions in the two countries remained in decline. To ameliorate the concomitant

---

<sup>1</sup> Wolf, M. *Why Globalisation Works* . New Haven and London: Yale University Press, 2004, 14.

effects of economic displacement in the two countries and its effects on other parts of the world through globalisation, a second wave of liberal policies were adopted. The African Growth and Opportunity Act (AGOA) is one of those policies. AGOA serves as the first comprehensive strategy and an effort by the United States (U.S.) to promote poverty reduction in SSA through trade and investment.

In assessing the achievements of AGOA in Kenya and South Africa, a pertinent question could be directed toward the success of the Act in areas such as poverty reduction, and the promotion of economic activities in the textiles and apparel industry. Has AGOA been successful in reinforcing Kenya and South Africa's reform efforts? Has AGOA been successful in facilitating the integration of Kenya and South Africa's economy into the global economy? Has AGOA been successful in promoting employment and poverty reduction in Kenya and South Africa? Using the textiles and apparel industry of the two countries as a case study, it was realised that AGOA has achieved much success in contributing to the reformation and integration of the economies of Kenya and South Africa into the global economy. However, AGOA's success in promoting poverty reduction through economic activities such as trade, investment and employment in the two countries has been mixed. While AGOA has contributed positively to the promotion of economic activities in the textiles and apparel industry of Kenya, the economic problems facing the textiles and apparel industry of South Africa has been exacerbated by AGOA.

The objective of this research is to assess the economic impact of AGOA in the textiles and apparel industry of Kenya and South Africa through an analysis of the outcome of the interaction between the national policies of Kenya and South Africa on the one hand, and AGOA on the other. It focuses on the new economic opportunities offered by AGOA for trade and investment in Africa, namely, the promotion of duty-free and quota-free trade to the United States (U.S.) – one of the largest markets in the world, as well as the promotion of national policies, such as employment and export-oriented industrialisation in Kenya and South Africa. Two main issues, policy and competitiveness in areas of trade, investment and employment, were assessed. This study therefore approaches the analysis of the economic impact of AGOA in the textiles and apparel industry of Kenya and South Africa from a historical, institutional, policy and developmental perspective.

To achieve its objective, the thesis is organised into five chapters. Chapter 1, the introductory chapter, outlines the objectives of the study, the research questions, methodology and the organisation of the thesis. Chapter 2 contextualizes the economic conditions in Kenya and South Africa which led to the adoption of AGOA. It traces the development of the textiles and apparel industry from the 1970s, the period that the textiles and apparel industry experienced significant growth, to 2000, the year that AGOA was passed into law to resolve the economic problems facing the two countries. The Chapter primarily focuses on the policy environment within which the textiles and apparel industry operated and the economic outcome of those policies within this period. The essence of this Chapter is to look at the contribution of the textiles and apparel industry to poverty reduction and economic activities, such as employment and trade, in Kenya and South Africa during the period of ISI, and after the implementation of the first wave of economic reforms in the 1980s and 1990s. This background knowledge will assist greatly in understanding the origin, objectives and achievements of AGOA.

Chapter 3 theoretically and comparatively examines the relationship between liberalism and AGOA. It will first look at the underlying principles of liberalism and then comparatively examine the underlying principles of liberalism with the underlying principles of AGOA. The essence of this Chapter is to establish the development approach which has been used under AGOA to promote poverty reduction and economic activities in Kenya and South Africa. Chapter 4 is forward looking; it examines the outcome of the interaction between the national policies of Kenya and South Africa on one hand and AGOA on the other. The essence of this Chapter is to analyse the economic achievements of AGOA in the textiles and apparel industry of Kenya and South Africa. Finally, Chapter 5 summarises the entire study. While conclusions were drawn from the study, the Chapter touches on possible areas for future research. It also provides recommendations for future reforms that can promote poverty reduction and economic activities in the textiles and apparel industry.

## **Methodology**

To examine the economic impact of AGOA in the textiles and apparel industry of Kenya and South Africa, the thesis relies on the comparative method of studying several countries. This method entails a contextual description of the historical development of the textiles and apparel

industry, together with the classification of the two countries into distinct categories with identifiable and shared characteristics. The variables which were used to assess the economic impact of AGOA are national policies such as tariff reduction and export-led industrialisation, adopted by the governments of Kenya and South Africa to facilitate their continuous eligibility for AGOA, as well as to promote trade, investment and employment in the two countries. External factors such as the provisions on textiles and apparel under AGOA, the termination of the Agreement on Textiles and Clothing (ATC) and the global financial crisis were also considered. The value outcome (statistical figures) of these policies were measured and analysed to help assess the economic impact of AGOA.<sup>2</sup> The value outcome was calculated using the annual growth rate of employment and exports.

The formula: Growth Rate (GR) =  $\frac{X1 - X2}{X2} \times 100$

Where X1 represents the value of the current year's employment or export, X2 is the value of employment or export for the previous year.

Information for the study was obtained from two major sources – primary and secondary. Primary data were obtained from official documents of governments including the governments of Kenya, South Africa and the U.S. Aggregate data from international institutions, such as the World Bank, the IMF, the United Nations Conference on Trade and Development (UNCTAD) and the International Labour Organisation (ILO) were also used. Secondary sources of information included newspaper articles, scholarly journal articles and books, together with reports on the textiles and apparel industry published by think tanks such as the Kenya Institute for Public Policy Research and Analysis (KIPPRA) and the Trade and Industrial Policy Strategies of South Africa (TIPS).

---

<sup>2</sup> Todd, L. *Issues and Methods in Comparative Politics: An Introduction* 2<sup>nd</sup> Ed. New York and London: Taylor and Francis Group, 2003, 5.

## CHAPTER 2

### OVERVIEW OF THE TEXTILES AND APPAREL INDUSTRY: A STUDY OF KENYA, AND SOUTH AFRICA

#### 2.1 Introduction

The textiles and apparel industry of Kenya and South Africa, as already mentioned, has been integral to the economic development of the two countries, and remains important for economic activities, such as employment, trade and investment. This Chapter examines the impact of ISI and the first wave of economic reforms in the textiles and apparel industry in the 1980s and 1990s. What will become evident in the Chapter is that, while ISI was able to promote economic activities such as employment in the textiles and apparel industry during the 1970s, the implementation of economic reform programmes in the 1980s and 1990s exacerbated economic problems facing the textiles and apparel industry of the two countries. ISI refers to the establishment of SOEs and para-statals to produce goods and services which would have otherwise been imported from foreign countries.

#### 2.2 Development of the Textiles and Apparel Industry in Kenya (1970-2000)

After independence in 1963, the government of Kenya, led by Jomo Kenyatta, made industrialisation integral to Kenya's development strategies. To promote the modernisation, industrialisation and transformation of Kenya's economic activities from excessive dependence on natural resource extraction to secondary economic activities, the government invested heavily in SOEs, Corporative Societies (CSs), and Marketing Boards (MBs). The relationship between the SOEs, the CSs and the MBs was a 'horizontal chain of mutual and interdependent relationship.' In the agricultural sector, CSs subsidised credits and farming inputs for farmers who grew cotton and other crops. After farmers harvested their crops, MBs would buy the farm products and sell the products to SOEs. The valued-added products manufactured by SOEs was, again, bought by MBs and sold to the domestic and sometimes foreign market. Goods sold by MBs were, however, sold below the market price. From this perspective, the key roles of the MBs ranged from price control to the protection of marketing margins.



In addition to the roles of the SOEs, the CSs and the MBs, the government further used “protection instruments such as duty drawbacks, quantitative restrictions and high tariffs on competitive imported goods. The government further overvalued the exchange rate, as well as broad-based economic controls that subsidised the industrial sector.”<sup>3</sup> Because the textiles and apparel industry occupied a prominent position in Kenya’s economy, the industry was one of the manufacturing industries highly protected by the government’s protection instruments. In addition to these protection instruments, the government built irrigation projects in areas such as the Nyanza, Western, Coastal, Central, Eastern and Rift Valley Provinces to boost cotton production.<sup>4</sup>

Due to factors ranging from protection instruments, to the efforts of the government to promote a backward linkage between the textiles and apparel industry and cotton farming, the textiles and apparel industry grew significantly. “It became the leading manufacturing activity in terms of size and employment in the 1980s. It has also been mentioned that, from independence to 1990, the capacity utilisation of the textiles and apparel industry averaged 70%.”<sup>5</sup> The increased capacity utilisation of the textiles and apparel industry within this period came with economic opportunities such as employment. According to the ILO, from 1971 to 1980, the average rate of employment in the textiles and apparel industry was 9.4%.<sup>6</sup>

What facilitated the growth of the textiles and apparel industry in the 1970s was the four year development plan implemented by the Kenyan government in 1966. The Kenyan Development Plan (1966-1970) laid the foundation for economic growth in the country by creating and defining the roles of SOEs, CSs and MBs. In addition, “the Plan promoted a mixed economy, which involves the integration of the agriculture and industry sectors. Public and private

---

<sup>3</sup> Kinyanjui, M., Ligulu, P. and McCormick, D. “Clothing and Footwear in Kenya: Policy and Research Concerns,” in *Clothing and Footwear in African Industrialization*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 195

<sup>4</sup> Ikiara, M.M. and Ndirangu, L.K. “Prospects for Kenya’s Clothing Exports Under AGOA After 2004,” in *Clothing and Footwear in African Industrialization*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 237.

<sup>5</sup> Kenya Investment Authority, *Kenya’s Textile and Apparel Industry 2005*, 1, [www.investmentkenya.com](http://www.investmentkenya.com) (Accessed July 6, 2010).

<sup>6</sup> LABORSTA – Database of Labour Statistics. An International Labour Office Database on Labour Statistics Operated by the International Labour Organization’s Department of Statistics, <http://laborsta.ilo.org/> (Accessed July 12, 2010).

investments were also identified as the ideal means of promoting the mixed economy.”<sup>7</sup> Because private investment was encouraged under the Plan, the government adopted the Foreign Investment Protection Act (FIPA) to protect foreign investors. Under the FIPA, investors were required to reinvest profits in Kenya. Foreign investors were, again, required to develop managerial training schemes to train Kenyans in such duties so that they, the Kenyans, could assume managerial responsibilities.<sup>8</sup>

In addition to the four year development plan and the FIPA, the government invested in institutions such as the Industrial Credit Development Corporation (ICDC) and the Kenya Industrial Estate Program (KIEP) to promote the country’s development agenda. While KIEP provided investment allowances, subsidies, and infrastructures to facilitate the country’s industrialisation processes, the ICDC was responsible for developing industrial sheds for African entrepreneurs. Again, the ICDC provided loans to industries. In addition to the KIEP and The ICDC, the Industrial Development Division (IDD) and Industrial Survey and Promotion Centre (ISPC) were also created under the then Ministry of Commerce and Industry of Kenya. While the IDD supervised industrial development and planning, the ISPC provided research information on investment opportunities, feasibility studies and inter-industry studies. The ISPC further initiated studies to identify projects that could be interlinked from the various sectors of the country’s economy.<sup>9</sup>

However, despite the impressive success of the four year development plan, the FIPA and the above mentioned institutions, the long term success was abysmal. Factors ranging from the promotion by law, investment and reinvestment of private capital and the onerous responsibility of developing managerial schemes to train Kenyans in such duties became a disincentive for foreign investment. The imposition of high tariffs on imported goods under the ISI strategy also hindered foreign investment because high tariffs imposed on imported raw materials and other goods increased the cost of production.

---

<sup>7</sup> Kinyanjui, M., Ligulu, P. and McCormick, D. “Clothing and Footwear in Kenya: Policy and Research Concerns,” in *Clothing and Footwear in African Industrialization*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 194

<sup>8</sup> Ibid., 195-6.

<sup>9</sup> Ibid., 196-7.

The accumulation of these problems contributed to economic problems such as increased government budget deficits and rising unemployment in Kenya in the 1980s. The government's deficit financing arose because, in the 1980s, the government of Kenya had to increase its subsidies on oil, due to the Organization of the Petroleum Exporting Countries (OPEC) oil price increase. Again, because MBs controlled price margins by fixing producers' price for goods below the market price, the government could not accrue enough revenue to finance its expenditures. Because of the budget deficit incurred in the 1980s, the economic growth rate of Kenya decreased from 6% in the first decade of independence to 4% in the 1980s.<sup>10</sup> Employment in the textiles and apparel industry declined sharply. The average rate of employment in the textiles and apparel industry decreased more than thrice from 9.4% in the 1970s to 2.7% from 1981 to 1990.<sup>11</sup>

Faced with deteriorating economic conditions, the government of Kenya was compelled to seek assistance from external sources, such as the IMF/World Bank. However, the IMF/World Bank demanded that the Kenyan government implement economic reforms consistent with liberal principles before it could access its loans. In response to the IMF/World Bank demands, another four year development plan was adopted. The National Development Plan of Kenya (1984-1988), which departed from the ISI strategy, formed part of the broader Structural Adjustment Programs (SAP) of the IMF/World Bank. It began a process of internationalising Kenya's economy. The Plan resorted to the rhetoric of export-led industrialisation, privatisation, divestiture of SOEs, deregulation and trade liberalisation.

In addition to the National Development Plan (1984-1988), the 1986 Sessional Paper letters, No. 1 (on Economic Management for Renewed Growth) also categorically stated that the private sector should be used as an instrument for resource allocation. The Sessional Paper also institutionalised the liberalisation of Kenya's financial market and prohibited subsidies and other credit facilities given by the Kenyan government to support SOEs, CSs and MBs. To promote

---

<sup>10</sup> Kinyanjui, M., Ligulu, P. and McCormick, D. "Clothing and Footwear in Kenya: Policy and Research Concerns," in *Clothing and Footwear in African Industrialization*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 197.

<sup>11</sup> LABORSTA – Database of Labour Statistics. An International Labour Office Database on Labour Statistics Operated by the International Labour Organization's Department of Statistics, <http://laborsta.ilo.org/> (Accessed July 12, 2010).

trade and foreign investment, all quantitative restrictions which had been imposed under the ISI were removed and custom tariffs were also reduced. Trade promotion schemes, such as the Manufacturing Under Bond (MUB), the Green Channel System for Administrative Approval and Export Processing Zones (EPZs) were also adopted.<sup>12</sup>

The Export Processing Act (EPA) which established the Export Processing Zones (EPZs) was adopted to promote export-led industrialisation, foreign exchange earnings, transfer of technology and skills, employment, and to enhance Kenya's reform efforts. According to Omolo, EPZs are a "... designated part of Kenya where goods introduced are generally regarded, insofar as import duties are concerned, as being outside the customs territory but are duly restricted by controlled access..."<sup>13</sup> The EPA gave a 10 year tax holiday, and thereafter, a flat 25% tax for 10 years to exporters, unrestricted foreign ownership and employment in manufacturing industries, together with the freedom to repatriate unlimited amounts of earnings or profits.<sup>14</sup> The EPA further exempted EPZ firms from observing certain core labour laws and regulations. For instance, until 2003, trade unions could not organise workers in EPZ firms. EPZ firms were also exempted from the value added tax (VAT), stamp duty and from import duties on machinery, raw materials and intermediate inputs.<sup>15</sup>

Although these measures were adopted to ameliorate the deteriorating economic conditions that were becoming apparent in the 1980s, the success achieved was marginal. According to the U.S. Office of Textiles and Apparel, Kenya's export of textiles and apparel to the U.S. increased from \$7,883,461 in 1992 to \$44,048,429 in 2000.<sup>16</sup> The country's economic growth rate also increased marginally, i.e., from 1.2% in 1992 to 1.8% in 1993. There was also a decline in value-added production from 3.9% in 1995 to 3.7% in 1996.<sup>17</sup> Comparatively, the average rate of paid

---

<sup>12</sup> Kinyanjui, M., Ligulu, P. and McCormick, D. "Clothing and Footwear in Kenya: Policy and Research Concerns," in *Clothing and Footwear in African Industrialization*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 197.

<sup>13</sup> Omolo, J.O. "The Textile and Clothing Industry in Kenya," in *The Future of the Textile and Clothing Industry in Sub-Saharan Africa*, ed. Jauch, H. and Traub-Merz, R., 149, <http://tanzania.fes-international.de/doc/the-future-of-the-textile-and-clothing-industry-in-sub-saharan-africa.pdf#page=141> (Accessed January 14 2010).

<sup>14</sup> Ibid., 149.

<sup>15</sup> Ibid., 149.

<sup>16</sup> United States Office of Textiles and apparel, <http://otexa.ita.doc.gov/> (Accessed August 20, 2010).

<sup>17</sup> Kinyanjui, M., Ligulu, P. and McCormick, D. "Clothing and Footwear in Kenya: Policy and Research Concerns," in *Clothing and Footwear in African Industrialisation*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 197-8.

employment in the textile and apparel industry for the first seven years<sup>18</sup> of the 1990s was 0.8%, which was a significant reduction compared to the average rate of employment in the first seven years of the 1970s and 1980s, i.e. 9.7% and 4.9% respectively.<sup>19</sup>

To summarise, this section has shown that, notwithstanding Kenya's economic reform efforts in the 1980s and 1990s, economic conditions did not show much improvement.

### **2.3 Development of the Textiles and Apparel Industry in South Africa (1970-2000)**

In relation to the textiles and apparel industry of Kenya, South Africa's textiles and apparel industry has a longer history. South Africa's textiles and apparel industry dates back to 1889, but it was not until 1907 that the first clothing factories at Salt River, Cape Town started operating.<sup>20</sup> Since then, the industry has expanded to other geographical areas such as Durban, Pretoria, Witwatersrand and Phuthaditjhaba. In addition, production has moved from 'special orders' like uniforms for banks and railway workers, to high quality styled garments, semi-styled garments and low quality garments, which cater for high, middle and low income groups.<sup>21</sup> Notwithstanding the growth and expansion of the industry in the early years of its establishment, events in the South African economy as well as in the international economy from the inter-war period to the 1990s made it difficult for the growth and expansion of economic activities in the textiles and apparel industry. While the 1970s was characterised by improvements in economic activities, events in the 1980s and 1990s inhibited economic activities in the industry.

From the interwar period to the 1950s, high tariffs imposed on imports in Europe and the U.S. brought problems to the business life of South Africans. Tariffs imposed in these countries affected South African manufacturers because the business life of South Africa during that period was dominated by merchant capital, which drew its strength from the import and export

---

<sup>18</sup> The available data from the ILO covers only the first 7 years of the 1990s

<sup>19</sup> LABORSTA – Database of Labour Statistics. An International Labour Office Database on Labour Statistics Operated by the International Labour Organization's Department of Statistics. <http://laborsta.ilo.org/> (Accessed July 12, 2010).

<sup>20</sup> Barker, H. A. F. "The Clothing Industry in South Africa," *South African Journal of Economics*, 29, No. 4 (1961): 243.

<sup>21</sup> Rogerson, C.M. "Sunrise or Sunset industries? South Africa's Clothing and Footwear Sector," in *Clothing and Footwear in African Industrialization* ed. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 126-9.

trade.<sup>22</sup> In addition to this problem, internal problems such as the concentration of the textiles and apparel industry in urban areas, to the detriment of the former homelands,<sup>23</sup> also led to urban congestion and its associated problems.

To resolve these problems, the government of South Africa adopted policies such as (i) import substitution industrialisation (ii) mass production (iii) spatial decentralisation of industries and (iv) the protection of trade union activities.<sup>24</sup> “The enactment of these swathes of industrial legislations as well as the establishment of active trade unions together ensured that South Africa’s clothing production was based on factories not outwork and that the extremes of sweating were prevented from establishing a hold on the trade.”<sup>25</sup>

The spatial decentralisation of industries was aimed at reducing urban congestion. The government used incentives such as tax exemptions and discounts on electricity to promote the relocation of industries to the former homelands, e.g. Harrismith and Butterworth. The spatial decentralisation of industries was accompanied with the mass production strategy “which changed the production method of industries by permitting a shift to the employment of unskilled and semi-skilled workers. This strategy resulted in a massive change in the racial composition of the labour force with the entry in large numbers of black workers.”<sup>26</sup> In addition to spatial decentralisation and mass production strategies, the government adopted the ISI strategy. ISI led to the imposition of high tariff barriers on imported goods. While the high tariffs imposed on imported goods led to high cost of imports, ISI facilitated the domestication of South Africa’s manufacturing industries.

Because of these strategies, economic activities in the textiles and apparel industry increased significantly. According to the ILO, employment in the textile and apparel industry increased

---

<sup>22</sup> Rogerson, C.M. “Sunrise or Sunset industries? South Africa’s Clothing and Footwear Sector,” in *Clothing and Footwear in African Industrialization* ed. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 126.

<sup>23</sup> Former homelands were reserves or territories set aside for black inhabitants of South Africa in the apartheid rule.

<sup>24</sup> *Ibid.*, 113.

<sup>25</sup> Rogerson, C.M. “Sunrise or Sunset industries? South Africa’s Clothing and Footwear Sector,” in *Clothing and Footwear in African Industrialization* ed. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 126.

<sup>26</sup> *Ibid.*, 127.

from 31,000 after WW II,<sup>27</sup> to 183,293 in 1970.<sup>28</sup> From 1971 to 1980, employment in the textiles and apparel industry averaged 2.4%. Within the same period, the textile and apparel industry contributed an average of 16.8% to employment in the manufacturing sector.<sup>29</sup>

However, despite the success chalked in the 1970s, economic activities in the industry began to deteriorate in the 1980s as a result of changes in government policies. In the late 1970s, “the textiles and apparel industry, especially those in Witwatersrand, came under assault from the apartheid planning legislation, most importantly, the Environmental Planning Act (EPA). Under the EPA, industries located in controlled areas (former homelands) were not allowed to expand in terms of engaging additional black workers.”<sup>30</sup> Again, “in common with the fiction that former homelands were not part of South Africa proper, wages in the latter were not regulated at all.”<sup>31</sup> The EPA led to the breaking up of the Witwatersrand clothing cluster and a dominant place for the Durban and Cape Town clothing clusters.<sup>32</sup> Because the clothing cluster in Witwatersrand contributed significantly to employment in the 1970s, the breaking up of this cluster led to a decline in the rate of employment. From 1981-1990, the average rate of growth in employment in the textiles and apparel industry decreased from 2.4% in the 1970s to negative 0.4%.<sup>33</sup>

Due to the racially discriminatory policies adopted by the apartheid government under the EPA, western countries including the U.S., imposed sanctions on South Africa to compel the government to abolish its discriminatory policies. In respond to the sanctions, the apartheid

---

<sup>27</sup> Rogerson, C.M. “Sunrise or Sunset industries? South Africa’s Clothing and Footwear Sector,” in *Clothing and Footwear in African Industrialization* ed. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 126-7.

<sup>28</sup> LABORSTA Internet is an International Labour Office database on labour statistics operated by the International Labour Organization Department of Statistics, <http://laborsta.ilo.org/> (Accessed July 20, 2010).

<sup>29</sup> Ibid.

<sup>30</sup> Rogerson, C.M. “Sunrise or Sunset industries? South Africa’s Clothing and Footwear Sector,” in *Clothing and Footwear in African Industrialisation*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 128.

<sup>31</sup> Gibbon, P. “South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints,” in *Clothing and Footwear in African Industrialisation*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 161.

<sup>32</sup> Rogerson, C.M. “Sunrise or Sunset industries? South Africa’s Clothing and Footwear Sector,” in *Clothing and Footwear in African Industrialisation*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 128.

<sup>33</sup> LABORSTA Internet is an International Labour Office database on labour statistics operated by the International Labour Organization Department of Statistics. <http://laborsta.ilo.org/> (Accessed July 20, 2010).

government adopted the Regional Industrial Development Programme (RIDP) (1982-91).<sup>34</sup> “The RIDP was aimed at providing the former homelands and other rural areas with an industrial base. It offered a substantial 5-year subsidy package to firms locating or relocating anywhere outside Johannesburg, Pretoria and Durban.”<sup>35</sup> In addition to the RIDP, other labour regulations, such as the Compensation for Occupational Injuries and Diseases Act, 1993 (Act 130 of 1993), the Labour Relations Act (LRA), 1995 (Act 66 of 1995), and the Basic Conditions of Employment Act 75 of 1997 (BCEA) were also adopted to promote good working conditions for employees, since wages and other labour regulation, especially in the former homelands, were not regulated during the apartheid period.<sup>36</sup>

Although this legislation sought to promote the productivity of labour through the promotion of good working conditions, it brought a new challenge to manufacturers. For instance, the 1997 BCEA obliges employers to pay: compulsory maternity leave (four months); 21 consecutive days’ leave with pay of at least equivalent to the remuneration that the employee would have received for working for an equivalent period, 10 days’ sick leave and family responsibility leave.<sup>37</sup> In this respect, the BCEA promoted a high rate of absenteeism, since employees could claim compensation for leave under the Act.<sup>38</sup>

In addition to the high rate of absenteeism, the change in government policy from ISI to export-led industrialisation in the 1990s exacerbated the problems in the textiles and apparel industry. In the 1990s, South Africa began a process of tariff reforms. These policies were aimed at reducing the disincentive to export and promoting export-led industrialisation.<sup>39</sup> Protective tariffs and non-tariff barriers previously adopted under the ISI strategy were rapidly erased and replaced with

---

<sup>34</sup> Gibbon, P. “South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints,” in *Clothing and Footwear in African Industrialisation*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 158.

<sup>35</sup> Gibbon, P. “South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints,” in *Clothing and Footwear in African Industrialisation*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 158.

<sup>36</sup> The Basic Conditions of Employment Act 75 of 1997, 5, <http://www.bloemfontein.co.za/docs/Basic-Conditions-of-Employment-Act.pdf> (Accessed March 4, 2011).

<sup>37</sup> *Ibid.*, 13-16.

<sup>38</sup> Salinger, B.L. et al. *Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa*. A report submitted to the United States Agency for International Development (USAID), Bureau for Africa Office of Sustainable Development: Washington, 13, [http://pdf.usaid.gov/pdf\\_docs/PNACH147.pdf](http://pdf.usaid.gov/pdf_docs/PNACH147.pdf) (Accessed July 18, 2010).

<sup>39</sup> Roberts, S. and Thoburn, J. “Adjusting to Trade Liberalisation: The Case of Firms in the South African Textile Sector,” *Journal of African Economies*, 12, No. 1 (2003): 75.



export-promoting incentives, such as the Duty Credit Certificate Scheme (DCCS). The average tariff on fabric, for instance, fell from 50% in 1993 to 24% in 2001. Over the same period, the average tariff on yarn fell from 35% to 18%.<sup>40</sup> In addition to the reduction of tariffs on yarn and fabric, quantitative and formula duties were converted to *ad valorem* tariffs. Other trade-related barriers that contravened WTO rules, such as local content requirements were also abolished to accomplish South Africa's macroeconomic strategy of trade liberalisation.<sup>41</sup> These reform measures brought a decline in South Africa's trade protection barriers to the extent that tariffs on many major items were no longer sufficient to prevent imported yarn, fabrics and cloth from being sold more cheaply than locally produced yarns, fabrics and cloths, even after payment of the import duty.<sup>42</sup>

Because of the problems associated with the labour regulation laws and the aggressive commercial policies pursued by the government of South Africa, manufacturers were compelled to restructure the proportion of their output going to the South African market as well as the labour component in production.<sup>43</sup> The restructuring of production and the labour component negatively affected employment. Even with the addition of the leather industry to the textiles and apparel industry from 1993 onward,<sup>44</sup> the average rate of employment in the three industries could not match the 1970s. The average rate of change in employment in the textiles, apparel and leather industry decreased to a record low of negative 0.7% from 1991 to 2000, compared to the average rate of change in employment of 2.4% and negative 0.4% in the textiles and apparel industry from 1971-1980 and 1981-1990 respectively.<sup>45</sup> Despite the decrease in the rate of employment, it is important to say that the restructuring of output to foreign markets such as the U.S. achieved some positive results. According to the U.S. Office of Textiles and Apparel,

---

<sup>40</sup> Gibbon, P. "South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints," in *Clothing and Footwear in African Industrialisation*. McCormick, D. and Rogerson, C.M. (eds). Pretoria, South Africa: Africa Institute of South Africa, 2004, 159-60

<sup>41</sup> Roberts, S. and Thoburn, J. "Adjusting to Trade Liberalisation: The Case of Firms in the South African Textile Sector," *Journal of African Economies*, 12, No. 1 (2003): 78.

<sup>42</sup> *Ibid.*, 80.

<sup>43</sup> Reid, K. An Assessment of Textile Production in a Decentralised Locality. South African Department of Trade and Industry, 8, <http://www.tips.org.za/> (Accessed September 10, 2010).

<sup>44</sup> Before 1993, data collected by Statistics South Africa included only employees in the textiles and apparel industry, but from 1993 onward, Statistics South Africa changed its data collection method and combined data in the textiles, apparel and the leather industry.

<sup>45</sup> LABORSTA Internet is an International Labour Office database on labour statistics operated by the International Labour Organization Department of Statistics. <http://laborsta.ilo.org/> (Accessed July 20, 2010).

textiles and apparel imported into the U.S. from South Africa increased from \$68,525,278 in 1995, to \$163,371,531 in 2000,<sup>46</sup> when the country started its export-led industrialisation policies.

To summarise, from 1970 to 2000, the South Africa textiles and apparel industry faced significant challenges. This section has shown that, despite the increase in exports to countries such as the U.S. in the 1990s, employment in the industry continued to decline because of certain policies, e.g. the EPA, labour laws and the aggressive commercial policies pursued by the South African government in the 1990s.

## **2.4 Conclusion**

Background analysis of the development of the textiles and apparel industry in Kenya and South Africa has shown that, although it accounted for a significant proportion of employment in the 1970s, its growth could not be sustained after the implementation of economic reform policies in the 1980s and 1990s. In Kenya, factors such as the promotion by law of private investment and reinvestment of profit and the onerous responsibility of developing managerial schemes to train Kenyans in such responsibilities, served as disincentives for investment. Again, it was realised that factors such as subsidies given to SOEs created under the ISI strategy, the creation of institutions like the ICDC, KIEP to provide investment allowances and subsidies, and the creation of MBs and CS to subsidise farming inputs, as well as to sell farm products and industrial outputs below the market price, led to government budget deficits. Furthermore, it was established that, despite the implementation of reform policies to ameliorate the economic problems that befell Kenya in the 1980s and 1990s, economic conditions did not show much improvement.

A similar case can be cited for South Africa. An analysis of the textiles and apparel industry of South Africa has shown that the apartheid segregation policies, labour regulation laws, and the aggressive commercial policies of the South African government stalled the growth of the textiles and apparel industry. Labour regulation laws such as the BCEA, which were adopted to regulate labour issues as well as to promote good working conditions in areas that had not been

---

<sup>46</sup> United States Office of Textiles and apparel, <http://otexa.ita.doc.gov/> (Accessed August 20, 2010).

regulated under the apartheid rule, served as incentives for absenteeism. In addition to this problem, the aggressive commercial policies of the South African government also led to the restructuring of production output and the labour component in industrial production. The restructuring of production and the labour component in industrial production, together with the issue of absenteeism, led to the retrenchment of the number of workers in the textiles and apparel industry.

Chapter 3 examines how AGOA sought to revamp and revitalise economic activities in the textiles and apparel industry of the two countries.

## CHAPTER 3

### U.S. TRADE POLITICS: AFRICAN GROWTH AND OPPORTUNITY ACT

#### 3.1 Introduction

Chapter 2 has shown that economic conditions in Kenya and South Africa did not show much improvement even after the implementation of economic reform policies. Unemployment, poverty, a high inflation rate and national debt increased significantly over the years. Kenya and South Africa are not the only African countries which experienced such abysmal economic outcomes after the implementation of economic reforms. Using the national-accounts-consistent poverty estimates, which calculate the proportion of poor people in the population of a country using (i) the average annual private consumption per capita, as reported in national accounts data, and (ii) the distribution of private consumption amongst households as reported in household survey data, UNCTAD's Least Developed Countries Report of 2002 estimated that between 1995 and 1999, on the list of the 49 Least Developed Countries (LDCs), of which 29 were in Africa, the extent of poverty was very marked among the 29 African LDCs. It noted that 87% of the population in the African LDCs lived on less than \$2 a day, with an average consumption of 86 cents a day, while 65% of the population lived on less than \$1 a day with an average consumption of 59 cents a day.<sup>47</sup>

From structural adjustment to economic displacement, the concomitant effects of economic reforms in SSA led to an upsurge of socio-political and economic problems, e.g. political instability, unemployment, poverty and the apparent internationalisation of the consequences of these socio-political and economic problems. Crucial examples of these problems are the terrorist attack on the U.S. Embassies in Nairobi and Dar es Salaam by Al Qaeda in 1998,<sup>48</sup> and the increasing numbers of refugees and outbreaks of disease such as human immunodeficiency virus/ acquired immune deficiency syndrome (HIV/AIDS). To ameliorate these problems, and to ensure the long term benefits of a market economy, the U.S. adopted AGOA. Building on the

---

<sup>47</sup> United Nations Conference on Trade and Development (UNCTAD). *The Least Developed Countries Report 2002 (Escaping the poverty Trap)*, iii. (Accessed October 26, 2010).

<http://www.unctad.org/Templates/Page.asp?intItemID=3073&lang=1>

<sup>48</sup> Van de Walle, N. "U.S Policy towards Africa: the Bush legacy and the Obama administration," *African Affairs*, 109, No. 434 (2010): 7.

market access provided by the US-GSP,<sup>49</sup> AGOA has now become the core U.S. policy for promoting trade and investment, stimulating economic growth and promoting poverty reduction, as well as facilitating the integration of SSA countries into the international economy.

While the preceding chapter set the historical context within which the textiles and apparel industry operated, and the background to the origin and objectives of AGOA, the objective of this chapter is to comparatively examine the relationship between liberalism and the development approach used under AGOA to revamp and revitalise economic activities in the textiles and apparel industry of Kenya and South Africa. What will become evident in this chapter is that AGOA seeks to promote poverty reduction and the improvement of economic activities in the textiles and apparel industry of Kenya and South Africa through a market economy, or what is commonly referred to as liberalism.

In this chapter, an overview of the underlying principles of liberalism will be given. It will then be followed by a comparative examination of the relationship between liberalism and AGOA, and finally, an examination of the provisions on textiles and apparel trade under AGOA. This will serve as background knowledge for assessing the impact of AGOA in Kenya and South Africa.

### **3.2 The Governing Principles of Liberalism**

In this section, a summary of the governing principles and competing ideas of liberalism will be given to provide a background to a comparative examination of the relationship between liberalism and AGOA. The liberal principles promoted by Western countries, including the U.S., and international institutions such as the IMF, World Bank and the WTO, rests on four main principles, i.e., the free market economy (free trade and trade agreements), private property ownership, limited government involvement in economic activities and the promotion of freely convertible currencies. Liberals believe that a free market economy promotes tariff reduction, which in turn promotes production and efficient capacity utilisation of resources. According to Polanyi “liberalism is utterly materialistic and believes that all human problems can be resolved

---

<sup>49</sup> The U.S.-Generalised System of Preference (US-GSP) is a trade program designed to promote economic growth in developing countries. It provides preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories to the U.S.

when the individual is given an unlimited amount of material commodities.”<sup>50</sup> Liberals such as Adam Smith (1723-1790), David Ricardo (1772-1823), Milton Friedman (1912-2006) and Karl Polanyi (1886-1964) have argued that, “in a free market economy, the consumer or the individual is protected from coercion by the seller because of the presence of other sellers with whom he or she can deal, vis-a-vis, the seller and the employee.”<sup>51</sup> According to Friedman “the market does this impersonally without central authority.”<sup>52</sup>

Notwithstanding these underlying principles, there exist variations among liberals on the role of government in a free or liberalised state. Orthodox liberals, or what is commonly referred to as neoliberals,<sup>53</sup> such as Adam Smith, David Ricardo and Milton Friedman, argue that the market should be allowed to function with minimal or no government interference. According to Friedman, “to benefit from the promise of government while avoiding the threat to freedom, the scope of government must be limited to the determination of the ‘rules of the game’ and to providing means where individuals can modify, mediate, interpret and enforce compliance with rules.”<sup>54</sup> He posits that “the scope of government must be limited. Its major function must be to protect our freedom both from the enemies outside our gates and from our fellow-citizens; to maintain law and order; to enforce private contracts and to foster competitive markets.”<sup>55</sup> He further argues that “the power of governments must be dispersed.”<sup>56</sup> Thus, Friedman and his contemporaries do not only support limited government intervention in the market, but also believe that, in order to enhance individual freedom, the government power must be decentralised.

Despite these beliefs, Interventionist liberals<sup>57</sup> (hereafter interventionist), such as Karl Polanyi and John Maynard Keynes take a different position on the role of government in a liberal state. Interventionists argue that, to protect the individual against market imperfection, some form of government support, e.g. fiscal policies, investment and (to a lesser extent) monetary policies in

---

<sup>50</sup> Polanyi, K. *The Great Transformation, the Political and Economic Origins of our Time*. Boston: Beacon Press, 1957, 40.

<sup>51</sup> Friedman, M. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962, 14.

<sup>52</sup> *Ibid.*, 15.

<sup>53</sup> Cohn, T.H. *Global Political Economy: Theory and Practice*, 4<sup>th</sup> Ed. New York: Longman, 2008, 71.

<sup>54</sup> Friedman, M. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962, 25.

<sup>55</sup> *Ibid.*, 2.

<sup>56</sup> *Ibid.*, 3.

<sup>57</sup> Cohn, T.H. *Global Political Economy: Theory and Practice*, 4<sup>th</sup> Ed. New York: Longman, 2008, 71.

the market are necessary to promote equality, justice and employment.<sup>58</sup> According to Polanyi, “the idea of a self-adjusting market implies a stark utopia.”<sup>59</sup> He posits that “such an institution could not exist for any length of time without annihilating the human and natural substance of society. Such an institution, he suggests, would physically destroy man and transform his surroundings into a wilderness.”<sup>60</sup> Despite painting such a gloomy picture about the self-adjusting, or free market, Polanyi forcefully argues that “we must not abandon the principle of individual freedom but re-create it.”<sup>61</sup> Consequently, interventionist liberals like Polanyi favour government intervention – not to replace capitalism, but to rescue and revitalise it.<sup>62</sup>

Two competing liberal ideas have influenced national and commercial policies in the international economy since the 19th century. Influenced by interventionist ideas, postwar planners in the 1950s and 1960s designed economic policies on the basis of interventionism. This brought a movement toward greater openness in the international economy, but governments also adopted contingency measures to promote economic stability and to cushion domestic economic activities. For instance, countries such as the U.S. called for multilateral tariff reduction but were permitted to use safeguards and exemptions from trade regulations set by the General Agreement on Tariffs and Trade (GATT) to promote their balance of payment, full employment and economic growth.<sup>63</sup> Notwithstanding these, however, international pressures, for instance the 1960s U.S. balance of payment deficit, 1970s OPEC oil price increases and the prolonged global recession following 1974, made it costly for governments to continue with welfare and full employment policies. Orthodox or neo-liberalism took turns to influence policies of governments in Western countries and international institutions like the World Bank. Neoliberals argue that a, “radical alternative to neoliberalism was not possible”, and that, in line with British Prime Minister, Margaret Thatcher's, memorable phrase: TINA (“There is no alternative.”)<sup>64</sup>

---

<sup>58</sup> Keynes, J.M. *The General Theory of Employment, Interest, and money*. New York: Harcourt, Brace and World, 1936, 378-379.

<sup>59</sup> Polanyi, K. *The Great Transformation, the Political and Economic Origins of our Time*. Boston: Beacon Press, 1957, 3.

<sup>60</sup> *Ibid.*, 3.

<sup>61</sup> *Ibid.*, x.

<sup>62</sup> Cohn, T.H. *Global Political Economy: Theory and Practice*, 4<sup>th</sup> Ed. New York: Longman, 2008, 75.

<sup>63</sup> *Ibid.*, 76.

<sup>64</sup> Tabb, K. W., “Globalization Is An Issue: The Power of Capital Is An Issue,” *Monthly Review Press*, (1997): 1.

A summary of the underlying and competing principles of liberalism has shown that, the logic of liberalism is the promotion of a market economy and individual freedom. Liberals take a bottom-up approach to development by stressing the primacy of the individual consumer, firms or the entrepreneur. Liberals also seek to transform development from the state-centric approach to private property ownership. Despite the primacy of the individual in liberalism, there is a consensus among liberals that government intervention, especially in maintaining law and order, is important.

The next section compares two competing ideas under liberalism that have been integrated into AGOA.

### **3.3 The Governing Principles of the African Growth and Opportunity Act: Liberalism**

In this section, what will become evident is that the AGOA's development approach is rooted in the market economy, or what is commonly referred to as liberalism. Passed into law on May 18, 2000, AGOA authorises the U.S. President to designate a SSA country as eligible for duty-free and quota-free trade if the U.S. President determines that the country has established, or is making progress toward establishing, the following: a market-based economy; the rule of law and political pluralism; the elimination of barriers to U.S. trade and investment; the protection of intellectual property rights; efforts to combat corruption; policies to reduce poverty, increasing availability of health care and educational opportunities; the protection of human rights and workers' rights; and the elimination of certain child labour practices.<sup>65</sup>

Essentially, AGOA's eligibility criteria approach the development of SSA from three main liberal perspectives. The first liberal principle of AGOA is the promotion of a market economy. AGOA, essentially, is a non-reciprocal trade agreement between eligible SSA countries and the U.S. It gives incentives through preferential treatment on tariffs to SSA countries that have made progress or are making progress toward reducing tariff barriers imposed on trade and investment. It also promotes individual's rights, such as human rights, the protection of intellectual property rights, and other internationally recognised workers rights. The protection of human rights and

---

<sup>65</sup> One Hundred and Sixth Congress of the United States of America, The African Growth and Opportunity Act, 4, [http://agoa.gov/agoa\\_legislation/agoatext.pdf](http://agoa.gov/agoa_legislation/agoatext.pdf) (Accessed November 20, 2010).



other internationally recognised workers rights involves the national treatment of foreign workers as well as foreigners. The protection of intellectual property rights also involves the prevention of illegal reduplication or reproduction of industrial properties like inventions and literal and artistic works without due recognition of the inventor or author. The objective of these principles is to give substance to private property ownership.

The second market principle of AGOA is the mandate given to the U.S President to move forward to negotiate free trade agreements, where feasible, with interested SSA countries. In June 2003, an effort was made by the U.S. to negotiate a free trade agreement with the Southern African Customs Union (SACU) but was suspended indefinitely in 2006 because the U.S. Administration and the SACU Officials could not agree on the scale and scope of the negotiation.<sup>66</sup> Despite the suspension of the negotiation with the SACU, the U.S has negotiated several trade and investment framework agreements (TIFAs) with SSA countries, for example, South Africa. Generally, the TIFAs commit signatories to expand trade of goods and services, to encourage private sector investment, and to resolve trade problems and disputes through consultation and dialogue.<sup>67</sup>

The final market principle of AGOA is the mandate given to the U.S. president under the Act, to organise a U.S.-SSA trade and economic cooperation forum hosted by the Secretary of State, Commerce, Treasury, and the U.S. Trade Representative. The Forum is to serve as a vehicle for regular dialogue between the U.S. and African countries on issues of economics, trade, and investment interests.<sup>68</sup> By 2008, seven AGOA Forums had been organised. The seventh AGOA Forum was held in Washington DC from July 14 to 16, 2008. It focused on creating a business climate that would encourage private investment and help mobilise capital to finance investment in SSA.<sup>69</sup> The Act further called on the U.S. President to promote trade and investment in

---

<sup>66</sup> Langton, D. *U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond*, 22, <http://www.fas.org/sgp/crs/row/RL31772.pdf> (Accessed December 10, 2009).

<sup>67</sup> *Ibid.*, 23.

<sup>68</sup> The African Growth and Opportunity Act, <http://www.agoa.gov> (Accessed December 16, 2010)

<sup>69</sup> *Ibid.*

eligible SSA countries through the creation of a privately managed equity fund; aimed at encouraging U.S. private investors to invest in African businesses and infrastructure projects.<sup>70</sup>

The second liberal principle of AGOA is the promotion of limited government and political pluralism. Under this approach, the U.S. President is authorised by the Act to terminate the eligibility of a country for AGOA's preferential treatment if the President in consultation with the AGOA Implementation Subcommittee of the Trade Policy Staff Committee (TPSC) and other U.S. state institutions, e.g. the U.S. Department of Commerce, determine that such a country is not making progress in meeting the eligibility criteria.<sup>71</sup> One of the main criteria that can influence the President's decision is the progress a country is making toward addressing the problem of bribery and corruption. This is mainly due to the extra cost that bribery and corruption add to production. Again, these two problems serve as disincentives for investment and trade. In order to promote a friendly environment for private investment and the free flow of goods and services, the AGOA legislation charges eligible SSA countries to promote the rule of law and institutional mechanisms that will help combat bribery and corruption. Another area of interest is the promotion of political pluralism. In December 2003, the Central African Republic (CAR) was removed from amongst AGOA eligible countries because of a military coup. The Côte d'Ivoire was also removed in 2004 for failing to implement political and economic reforms that would promote individual freedom and democratic governance.<sup>72</sup> The rule of law and political pluralism under AGOA serves as a bedrock for promoting limited and representative government in SSA.

The final liberal principle of AGOA is the creation of institutions like the Assistant United States Trade Representative for African Affairs (hereafter African Office or Office). The African Office was created to develop and coordinate U.S. trade and investment policies with eligible SSA countries. The Office leads interagency negotiation and implements a number of U.S. trade and

---

<sup>70</sup> McCormick, R. "The African Growth and Opportunity Act: The Perils of Pursuing African Development Through U.S. Trade Law," *Texas International Law Journal*, 41 (2006): 349.

<sup>71</sup> Langton, D. *U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond*, 4, <http://www.fas.org/sgp/crs/row/RL31772.pdf> (Accessed December 10, 2009).

<sup>72</sup> The Subcommittee hearing on U.S. policy towards SSA was organised to undertake an overview of U.S. trade and investment policy towards SSA in the changing global conditions. The hearing had the aim of critically analysing the contribution and lack of same from AGOA towards the development of SSA. Committee on International Relations. "*African Growth and Opportunity Act: A five year Assessment*," 12-13, <http://www.foreignaffairs.house.gov/archives/109/24056.pdf> (Accessed May 20, 2010).

investment policies in SSA. The Office also serves as an instrument to open SSA markets to U.S. goods, services and investment, while at the same time helping SSA countries to use trade as a means of advancing their economic growth. The Office further oversees the implementation of AGOA, and works closely with other U.S. agencies, e.g. the United States Agency for International Development (USAID), to help eligible countries make the most of AGOA's trade benefits.<sup>73</sup> In addition to the African Office, the Act encourages TIFA signatories to establish a Council on Trade and Investment to provide a venue for consultation on trade issues of interest or concern to the parties, and to work toward the removal of impediments to trade and investment flows.<sup>74</sup>

To summarise, it has been established in this section that AGOA's development approach is rooted in three main liberal principles: a market economy, limited or democratic governance and the establishment of institutions to manage trade and investment policies. AGOA therefore approaches the development of SSA countries from both neoliberal and interventionist perspectives. The proceeding section examines the provisions for textiles and apparel under AGOA to provide background knowledge for the assessment of the impact of AGOA in the textiles and apparel industry of Kenya and South Africa.

### **3.4 Textiles and Apparel Provisions under AGOA**

Another area of interest in the development approach of AGOA is the provisions on textiles and apparel. The objectives of the provisions are two folds. The first objective is to promote trade, investment and industrialisation in eligible SSA countries. Finally, the provisions serve as preconditions for the application of preferential treatment as well as to help prevent the use of counterfeit documents or the transshipment of textiles and apparel exported from a third-country to the U.S. through an AGOA eligible country.

As already mentioned, AGOA provides duty-free and quota-free treatment for eligible apparel articles made in qualifying SSA countries for the U.S. through to 2015. Preferential treatment for

---

<sup>73</sup> Office of the United States Trade Representative, "*Africa*," <http://www.ustr.gov/countries-regions/africa> (Accessed May 4, 2010).

<sup>74</sup> Langton, D. *U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond*, 23, <http://www.fas.org/sgp/crs/row/RL31772.pdf> (Accessed December 10, 2009).

apparel took effect on October 1, 2000, but to benefit from such treatment, a SSA country is required to have established effective visa systems to prevent illegal transshipment and the use of counterfeit documentation. Again, a SSA country is required to have instituted required enforcement and verification procedures so that the U.S. Customs Service Verification Team can verify the origin of textiles and apparel imported into the U.S under AGOA.<sup>75</sup>

Before 2008, the provisions on textiles and apparel were amended thrice, i.e., 2002, 2004 and 2006, showing the sensitive nature of textiles and apparel trade under AGOA. In 2002, Congress passed legislation which extended AGOA's benefits beyond the original deadline –from 2004 to 2015. The 2002 amendment also clarified the provision on knit-to-shape or “wholly assembled” apparel articles. It allowed knit-to-shape articles to qualify for preferential treatment when the yarn and fabric that have been knit-to-shape is imported from the U.S. or from a beneficiary SSA country. The 2002 amendment also increased the cap for apparel made in eligible countries from regional fabric or yarn from 3% to 7% over eight years.<sup>76</sup>

In 2004, President Bush signed the AGOA Acceleration Act. The AGOA Acceleration Act is the most extensive amendment of the provisions on textiles and apparel since AGOA was passed into law. It:

- (i) extended third-country fabric provision for three years, from September 2004 until September 2007. The cap imposed on third-country fabric in 2002 was then rescheduled to be increased in years 1 and 2 and then to be scaled back in 2007, the 3<sup>rd</sup> year;
- (ii) expanded duty-free treatment for handmade, hand-loomed, and folklore articles to certain machine-made ethnic printed fabric made in SSA;<sup>77</sup>
- (iii) expanded eligibility to include garments made with third-country collars and cuffs (cut or knit-to-shape), drawstrings, padding/shoulder pads, waistbands, belts (attached to the garment), straps with elastic, and elbow patches;

---

<sup>75</sup> The African Growth and Opportunity Act, <http://www.agoa.gov> (Accessed December 16, 2010).

<sup>76</sup> Ibid.

<sup>77</sup> Office of the United States Trade Representative. *2005 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, 11, <http://www.agoa.gov/resources/index.asp> (Accessed November 24, 2010).

- (iv) increased the AGOA *de minimis* amount from 7% to 10%. The AGOA *de minimis* rule states that, apparel assembled in SSA with the presence of particular fibres or yarns not wholly formed in the U.S. or a beneficiary SSA country will still be eligible for preferential benefits as long as the total weight of the imported fibre or yarn is not more than 10% of the total weight of the article;
- (v) modified the rules of origin governing textiles and apparel trade, to allow certain textiles and apparel articles assembled either in the U.S. or an eligible SSA country to qualify for preferential treatment.<sup>78</sup>

The rules applied to determining the origin of goods employ two different criteria. The criterion of goods “wholly produced or obtained” in a given country, where one country enters into consideration in attributing origin, and the criterion of “substantial transformation,” where two or more countries have taken part in producing the good.<sup>79</sup> The ‘wholly produced’ criterion applies mainly to “natural” products and goods entirely made from them, so that goods containing any imported part or materials, or the same of undetermined origin, are generally excluded from its field of application.<sup>80</sup> Under AGOA, textiles and apparel manufactured from locally produced fabric and yarn qualify for preferential treatment since the fabric and yarn used to manufacture the textile and apparel is locally produced.

The provisions on textiles and apparel, however, become complicated under the AGOA ‘substantial transformation’ criterion. Under this criterion there is a cap imposed on textiles and apparel manufactured from third-country fabric. The term ‘third-country’ refers to any country in the world with the exception of the U.S. and eligible SSA countries. The cap imposed on apparel made from third country fabric applies only to AGOA lesser-developed beneficiary developing countries (LDBDCs). LDBDCs are SSA countries which had a per capita GNP of less than \$1,500 a year in 1998, as measured by the World Bank.<sup>81</sup> Under AGOA’s special rule for

---

<sup>78</sup> Office of the United States Trade Representative. *2005 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, 11, <http://www.agoa.gov/resources/index.asp> (Accessed November 24, 2010).

<sup>79</sup> Inama, S. *Rules of Origin in international Trade*. New York: Cambridge University Press, 2009, 4.

<sup>80</sup> *Ibid.*, 4.

<sup>81</sup> African Growth and Opportunity Act. *Apparel Eligibility*, [http://www.agoa.gov/eligibility/apparel\\_eligibility.html](http://www.agoa.gov/eligibility/apparel_eligibility.html) (Accessed October 9, 2010).

LDBDCs, LDBDCs obtain preferential treatment (qualifying for duty- and quota-free treatment) for apparel assembled in beneficiary countries, regardless of the origin of the fabric and yarn from 2001 until September 30, 2012 as amended in 2006.<sup>82</sup> The apparel imported into the U.S under the special rule for LDBDCs is limited to an amount not to exceed a cap of 2.6% or 535.9 square metres equivalent in the year. These quantities are recalculated for each subsequent year, as stated in the 2004 amendment. Apparel articles entering in excess of these quantities are, however, subjected to applicable tariffs.<sup>83</sup>

Another provision under the ‘substantial transformation’ criterion is the provision governing both AGOA beneficiary countries (BCs) and LDBDCs. BCs are SSA countries which had a per capita GNP of more than \$1,500 a year in 1998, as measured by the World Bank. BCs do not benefit from the apparel special rule as they are limited to fabric and yarn which are either locally produced or imported from the U.S. or eligible SSA countries. Though the fabric and yarn imported from the U.S. or eligible SSA country qualify for preferential treatment, the textiles and apparel manufactured from it is subject to certain conditions which include: (i) a cap on apparel made of SSA yarns and fabrics. The cap includes the extension of preferential treatment on a yearly basis and in each of these years, imports of apparel items from the country that uses regional/SSA fabric and yarn should not exceed the applicable percentage (10% over an 8 year period) of the aggregate square metre equivalent of all articles imported into the U.S. during the preceding 12 months, (ii) that the apparel consists of certain cashmere and merino wool sweaters, (iii) that the textiles and apparel are made of eligible hand-loomed, handmade, folklore articles or ethnic printed fabric and, according to a determination by the U.S. President, that yarns or fabrics needed for producing apparel are not available in commercial quantities or cannot be supplied on a timely manner in the U.S.<sup>84</sup>

Textile articles are also eligible for AGOA’s preferential treatment if they contain findings or trimming (sewing thread, hooks and eyes, buttons and zippers) the value of which does not exceed 25% of the cost of the components of the assembled article. The AGOA *de minimis* rule

---

<sup>82</sup>African Growth and Opportunity Act. *Apparel Eligibility*, [http://www.agoa.gov/eligibility/apparel\\_eligibility.html](http://www.agoa.gov/eligibility/apparel_eligibility.html) (Accessed October 9, 2010).

<sup>83</sup> One Hundred Sixth Congress of the United States, “the African Growth and Opportunity Act,” 10, [http://agoa.gov/agoa\\_legislation/agoatext.pdf](http://agoa.gov/agoa_legislation/agoatext.pdf) (Accessed May 13, 2010).

<sup>84</sup> *Ibid.*, 10.

further states that, an article is eligible for preferential treatment if the total weight of fabric or yarn, not wholly formed in the U.S. or beneficial SSA country, does not exceed 10% of the total weight of the article.<sup>85</sup>

To ensure compliance with these provisions, Congress has directed the U.S. Secretary of Commerce to monitor the quantity of textiles and apparel imported into the U.S. to determine if there is a surge of imports. According to the text of AGOA, “if the Secretary determines (through report by interested parties and forensic studies) that the surge of these articles is more likely to cause serious economic damage, or threat thereof to domestic industries producing similar or directly competitive articles, the U.S. President shall suspend the duty-free treatment provided for the article.”<sup>86</sup> To promote transparency in the President’s decision, the Act requires the Secretary of Commerce to depend on indicators like domestic production, sales, market share, capacity utilisation, inventories, employment, profits, exports, prices, and investment to assess the impact of these articles.<sup>87</sup>

A rough work on the effects of trade liberalisation, preferential treatment and the rules of origin governing textiles and apparel trade in Kenya and South Africa have yielded mixed results. In an interview of some selected firms and stakeholders in the textiles and clothing industry of South Africa, Roberts and Thoburn found that, because of trade liberalisation, a significant proportion of exporting firms in South Africa were doing so for defensive reasons because of threats to the domestic market.<sup>88</sup> With regard to employment and the growth of the textiles and apparel industry to other geographical areas, Robert and Thoburn argue that trade liberalisation has led to the concentration of textiles and clothing firms in three provinces, namely the Western Cape, KwaZulu-Natal and Gauteng, while towns such as Mooi River, Harrismith and Butterworth, which were formerly hubs of textiles and clothing activities, have become industrial ghost towns.<sup>89</sup> They also found that the upgrading of industrial machinery in the mid-1990s, together with the restructuring of production and the labour component in production led to labour

---

<sup>85</sup> Inama, S. *Rules of Origin in international Trade*. New York: Cambridge University Press, 2009, 206–214.

<sup>86</sup> One Hundred Sixth Congress of the United States, “the African Growth and Opportunity Act,” 8-10, [http://agoa.gov/agoa\\_legislation/agoatext.pdf](http://agoa.gov/agoa_legislation/agoatext.pdf) (Accessed May 13, 2010).

<sup>87</sup> Ibid. 10.

<sup>88</sup> Roberts, S. and Thoburn, J. “Globalisation and the South African Textile Industry: Impacts on Firms and Workers,” *Journal of International Development* 16, (2004): 131.

<sup>89</sup> Ibid., 131.

displacement. They argue that “the new generation of machines purchased by firms in recent years have much greater throughput than those they replace. A new loom or dyeing machine, according to them, may increase production by 50 to 100% over the machines they replaced. This means higher labour productivity and lower unit labour costs, along with reductions in employment.”<sup>90</sup>

On the issue of rules of origin governing the textiles and apparel trade, Ikiara and Ndirangu argue that, despite the critique against AGOA, it is a good intervention for Kenya because it provides an opportunity to build capacity in the textiles and apparel industry.<sup>91</sup> However, they caution that the opportunity for capacity building in Kenya is slipping away because of the termination of the LDBDCs special rule in September 2004. According to Ikiara and Ndirangu, the termination of the special rule will pose three major challenges to Kenya’s textiles and apparel industry. The first challenge they identified was the sourcing of yarn and fabric for production. They argue that sourcing yarn and fabric from the U.S. to make apparel will at least double the unit cost of production in Kenya, thus rendering uncompetitive the manufactured apparel. The second challenge they identified concerned cotton production in Kenya. They argue that cotton production in Kenya is insufficient and of low quality due to infrastructure, market and policy constraints. Finally, they suggest that the option of sourcing fabric and yarn from AGOA eligible countries is also limited, due to supply constraints similar to those at work in Kenya. Because of these problems, they suggest that Kenya improve its cotton farming, since Kenya has a comparative advantage in cotton production.<sup>92</sup>

According to Thompson, the rules of origin which eligible countries are supposed to implement, allow the door of trade to be slammed shut by the U.S. at any time, making it impossible for enterprises to plan long term production strategies.<sup>93</sup> She suggests that, although AGOA claim to

---

<sup>90</sup> Roberts, S. and Thoburn, J. “Globalisation and the South African Textile Industry: Impacts on Firms and Workers,” *Journal of International Development* 16, (2004): 135.

<sup>91</sup> Ikiara, M.M. and Ndirangu, L.K. *Prospects of Kenya’s Clothing Exports under AGOA after 2004*, The Kenya Institute for Public Policy Research and Analysis (Discussion Paper No. 24), 14, <http://www.kippra.org/resources/publications.asp#Annual%20Reports> (Accessed September 10, 2010).

<sup>92</sup> Ikiara, M.M. and Ndirangu, L.K. “Prospects for Kenya’s Clothing Exports Under AGOA after 2004,” in *Clothing and Footwear in African Industrialization*, McCormick, D. and Rogerson, C.M. (eds). Pretoria: Africa Institute of South Africa, 2004, 265-266.

<sup>93</sup> Thompson, C.B. “US trade with Africa: African growth and opportunity?” *Review of African Political Economy*, 31, No. 101(2004): 457.



promote economic growth in SSA through trade liberalisation and foreign investment, the United Nations (U.N) *World Investment Report* of 2003 states that foreign direct investment (FDI) in SSA from all sources amounted to \$8.1 billion in 2003, which represented a 41% decrease from the year 2000. U.S. imports and investment in SSA, in her opinion, has been concentrated in oil-rich countries, such as Nigeria, Angola and the Democratic Republic of Congo. She posits “82 percent of AGOA’s imports have been in the area of minerals and oil. Textiles, the only sector that exports processed goods, accounts for only 5 percent of U.S. imports from SSA.”<sup>94</sup> She further argues that the imposition of national treatment for foreign investors is also inhibiting the development of African industries. Governments in SSA, according to her, cannot give special interest rates on loans to local small and medium-sized businesses while global corporations can borrow money anywhere in the world, finding the lowest interest rates, and offshore their profits to the Cayman Islands, or other tax havens, to avoid paying tax.<sup>95</sup>

### **3.5 Conclusion**

This chapter has shown that AGOA’s development approach is rooted in liberalism. AGOA seeks to promote poverty reduction in SSA through a market economy, private property ownership, national treatment of foreign investors, protection of intellectual property and a commitment to the fight against bribery and corruption. To reinforce its commitment to these liberal principles, the U.S. government has created institutions like the African Office, to lead interagency negotiation and the implementation of a number of U.S. trade and investment policies in SSA. The Office further oversees the implementation of AGOA, and also works closely with other U.S. institutions, e.g. USAID to ensure conformity with policy formulation, implementation and evaluation in SSA.

Finally, to promote its commitment to a market economy, the Act mandates governments in the U.S. and eligible SSA countries to meet annually in the form of a forum which serves as a platform for settling trade disputes and to foster political and economic ties. Because the textiles and apparel industry is one of the manufacturing industries that is strategically targeted for

---

<sup>94</sup> Thompson, C.B. “US trade with Africa: African growth and opportunity?” *Review of African Political Economy*, 31, No. 101(2004): 461.

<sup>95</sup> *Ibid.*, 462.

promoting poverty reduction, the U.S. has given preferential treatment to textiles and apparel manufactured in eligible SSA countries. The next chapter will critically assess the impact of AGOA in the textiles and apparel industry of Kenya and South Africa.

## CHAPTER 4

### LOOKING INTO THE FUTURE: THE IMPLICATIONS OF REFORM POLICIES IN KENYA AND SOUTH AFRICA'S TEXTILES AND APPAREL INDUSTRY

#### 4.1 Introduction

In this chapter, I will argue that AGOA has had a mixed impact on the textiles and apparel industry of Kenya and South Africa. While AGOA has contributed to the exacerbation of problems facing the textiles and apparel industry in South Africa, it has helped improve and safeguard economic activities in Kenya's textiles and apparel industry. The Chapter proceeds by assessing the relationship between external factors, such as preferential treatment, the ATC, the global financial crisis and the promotion of employment, trade and investment in the textiles and apparel industry of South Africa and Kenya. Internal factors, such as commercial policies, monetary policies, policy management (policy formulation, implementation, monitoring and evaluation), political instability, and the development of human, capital and physical resources to promote poverty reduction are also assessed. The Chapter generally focuses on developments that took place in the textiles and apparel industry of Kenya and South Africa from 2000, the year AGOA was passed into law, to 2008, the initial year that preferential treatment for textiles and apparel was scheduled to expire.

Given these objectives, the Chapter is divided into three parts. Section One presents an overview of the impact of AGOA in eligible SSA countries. It looks at the dynamics of trade between eligible SSA countries and the U.S. from the day AGOA was passed into law up to 2008. Sections Two and Three analyse developments in the textiles and apparel industry in Kenya and South Africa under AGOA from 2000 to 2008. It looks at trade (exports) to the U.S., sources of competition for the textiles and apparel industry in the two countries, as well as investment and the rate of employment in this same context. At its core, this section will look at how the internal and external factors mentioned above have interacted to produce the conditions facing the industry.

## 4.2 Overview of the Impact of AGOA in Eligible SSA Countries.

As already mentioned, AGOA is the sole U.S. policy which seeks to promote poverty reduction through trade and investment in SSA. It also seeks to prevent the internationalisation of crime, especially those emanating from SSA as a result of economic and political displacement. In October 2000, Kenya and South Africa were among the first 34 of the 48 SSA countries to be designated eligible for AGOA's trade and investment benefits.<sup>96</sup> The number of beneficiary countries was however increased to 40 in 2008.<sup>97</sup> Being eligible for AGOA does not automatically give the country textiles and apparel trade benefits. As mentioned in Chapter 3, eligibility for such benefits is determined when the U.S. President, in consultation with the U.S. Bureau of Customs and Border Protection and other U.S. institutions, decide that the SSA countries have established effective visa systems and have instituted required enforcement and verification procedures to check against transshipment of textiles and apparel.

Despite the positive objectives of the textiles and apparel provisions, its complexity has dwarfed the intended objectives of the Act. It has also limited the number of countries which benefit from the textiles and apparel provisions. "In 2008, only three countries were added to the list of 24 eligible countries which benefited from the textiles and apparel provisions in 2005. Even among the 27 countries in 2008, only 18 countries, including Kenya and South Africa, qualified for hand-loomed and handmade articles."<sup>98</sup> Table 1 shows the catalogue of textiles and apparel benefits of Kenya and South Africa.

---

<sup>96</sup> United States International Trade Commission. *U.S. Trade and Investment with Sub-Saharan Africa, Third Annual Report, December 2002*. 19, [http://agoa.gov/resources/index.asp#P11\\_229](http://agoa.gov/resources/index.asp#P11_229) (Accessed September 15, 2010).

<sup>97</sup> Office of the United States Trade Representative, *2008 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, 5, [http://agoa.gov/resources/index.asp#P11\\_229](http://agoa.gov/resources/index.asp#P11_229) (Accessed September 15, 2010).

<sup>98</sup> The 27 countries eligible to receive AGOA apparel benefits are Benin; Botswana; Burkina Faso; Cameroon; Cape Verde; Chad; Ethiopia; Ghana; Kenya; Lesotho; Madagascar; Malawi; Mali; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Senegal; Sierra Leone; South Africa; Swaziland; Tanzania; The Gambia; Uganda, and Zambia. Office of the United States Trade Representative, *2008 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, 5, [http://agoa.gov/resources/index.asp#P11\\_229](http://agoa.gov/resources/index.asp#P11_229) (Accessed September 15, 2010).

Table 1: AGOA Preferences: Apparel and Textiles Eligibility of Kenya and South Africa.

	<b>Date Declared AGOA Eligible</b>	<b>Date Declared Eligible for Apparel Provision</b>	<b>LDBDC Special Rule For Apparel (3<sup>rd</sup> Country Fabric)</b>	<b>LDBDC Rule for Certain Textile Articles</b>	<b>Hand-loomed/ Handmade</b>	<b>Folklore Annex</b>	<b>Ethnic Printed Fabrics</b>
<b>Kenya</b>	Oct. 2, 2000	January 18, 2001	Yes	Yes	Yes	No	No
<b>South Africa</b>	Oct. 2, 2000	March 7, 2001	No	No	Yes	No	Yes

Source: *U.S Office of Textiles and Apparel*.<sup>99</sup>

Table 1 show that Kenya and South Africa benefit from different categories of preferential treatments under the textiles and apparel provisions of AGOA. Kenya is eligible for AGOA’s LDBDCs special rule. South Africa, on the other hand, does not qualify for the LDBDC special rule because its per capita GNP was more than \$1,500 in 1998. This has limited South Africa to only locally produced yarn and fabric or imported yarn and fabric from an eligible SSA country or the U.S.

The short duration of the LDBDCs special rule, the textiles and apparel provisions and the complicated and constantly changing provisions governing textiles and apparel trade under AGOA have contributed to the decline in investment in the industry and the apparent domination of the raw materials in AGOA’s trade. For instance, AGOA (including GSP) imports increased to \$51.1 billion in 2007, up 16% from 2006 (\$44.2 billion). However, petroleum and energy related products accounted for 93% of the overall AGOA imports in 2007. With the exception of South Africa – which is among the top five highest AGOA related export countries and remains the most diversified in its exports – petroleum exports remain the main export for four of the top five AGOA exporters. The top 5 AGOA related export countries are Nigeria, Angola, Chad, Gabon and South Africa.<sup>100</sup>

Although there was an increase in non-oil exports from \$1.4 billion in 2001 to \$3.4 billion in 2007, it constituted only 7% of total AGOA exports from SSA. “Textiles and apparel exports which is a non-oil export, increased from \$359.4 million in 2001 to \$1.3 billion in 2007. It

<sup>99</sup>United States Office of Textile and apparel, <http://otexa.ita.doc.gov/> (Accessed August 20, 2010).

<sup>100</sup> Office of the United States Trade Representative. *2008 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, 5-8. [http://agoa.gov/resources/index.asp#P11\\_229](http://agoa.gov/resources/index.asp#P11_229) (Accessed September 15, 2010).

accounted for 40% of AGOA non-oil imports in 2007.”<sup>101</sup> According to the 2008 AGOA Report, among the list of 21 countries which exported textiles and apparel to the U.S. in 2008, only five countries (Lesotho, Madagascar, Kenya, Swaziland and Mauritius) dominated exports of these products to the U.S.<sup>102</sup> These five countries, together with South Africa, have been the top 6 countries accounting for most textiles and apparel exports under AGOA since 2001 (see Table 2).

In 2004, among the countries eligible for AGOA’s textiles and apparel benefits, the top 6 textiles and apparel exporting countries exported 91.3% of the total \$1,782,649,940 AGOA textile and apparel exports. Although the amount of textiles and apparel exported to the U.S. decreased to \$1,177,063,772 in 2008 and in the same year, countries such as Cameroon and Ethiopia increased their textiles and apparel exports, the 6 countries were still the highest AGOA textiles and apparel exporters, with a share of 96.3%.

Table 2: Share of AGOA Textiles and Apparel Trade in the Top Six Sub-Saharan African Countries in 2004 and 2008.

Country	Export 2004 (Dollars)	Percentage Share by Volume (2004)	Export 2008 (Dollars)	Percentage Share by volume (2008)
<b>Lesotho</b>	455,753,191	25.6	339,690,343	28.9
<b>Kenya</b>	277,326,532	15.6	246,906,070	21.0
<b>Madagascar</b>	323,133,066	18.1	279,207,100	23.7
<b>Swaziland</b>	178,712,284	10.0	124,901,316	10.6
<b>South Africa</b>	163,881,488	9.2	40,893,687	3.5
<b>Mauritius</b>	227,479,506	12.8	101,553,117	8.6
<b>Sub Total</b>	1,626,286,067	91.3	1,133,151,633	96.3
<b>Total SSA</b>	1,782,649,940		1,177,063,722	

Source: *U.S. Office of Textiles and Apparel*.<sup>103</sup>

<sup>101</sup> Office of the United States Trade Representative. *2008 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, 17.

[http://agoa.gov/resources/index.asp#P11\\_229](http://agoa.gov/resources/index.asp#P11_229) (Accessed September 15, 2010).

<sup>102</sup> *Ibid.*, 17.

<sup>103</sup> United States Office of Textiles and apparel, <http://otexa.ita.doc.gov/> (Accessed August 20, 2010).

To summarise, this section has shown that, among the 40 SSA countries eligible for AGOA's preferential treatment in 2008, only ten countries have been dominating trade in oil and non-oil products.

### **4.3 AGOA and the Textiles and Apparel Industry in South Africa**

As mentioned earlier, South Africa has been implementing commercial policies since the 1990s. However, even in 2006, the outcome of such policies was still marginal. According to the South African Department of Trade and Industry (DTI), the economic growth of South Africa increased from 4.8% in 2004 to 5.09% in 2005 but fell to 5.0% in 2006.<sup>104</sup> It is therefore important to understand why the country's economic growth has been less than spectacular, despite the aggressive commercial policies and South Africa's eligibility for AGOA.

Since 1994, the South African economy has been dominated by three sub-sectors, i.e. the minerals, metals and energy industries. In its quest to transform the country's economy from overreliance on natural resources to the promotion of secondary and tertiary economic activities, the South African government turned to talks of a 'developmental state' in the 2000s.<sup>105</sup> The idea of a 'developmental state,' which coincided with AGOA, was aimed at promoting employment and poverty reduction through export-led industrialisation. To achieve these objectives, the government of South Africa adopted the Accelerated and Shared Growth Initiative for South Africa (ASGI-SA) and later the National Industrial Policy Framework (NIPF). These plans sought to promote the development of South Africa through:

1. Facilitating the diversification of South Africa's economy beyond the country's reliance on traditional commodities to the promotion of increased value adding activities, which are mainly characterised by a movement into non-traditional, tradeable goods and services that compete in export markets as well as against imports;
2. Ensuring the long-term intensification of South Africa's industrialisation process and movement towards a knowledge-based economy;

---

<sup>104</sup> The South African Department of Trade and Industries, Annual Reports 2007/08. *National Industrial Framework*, 15, <http://www.dti.gov.za/publications/publications.htm> (Accessed September 25, 2010).

<sup>105</sup> Takala, L. 'The Role of Industrial Policy and the Minerals-Energy Complex in the Decline of South African Textiles and Clothing', 24, <http://www.tips.org.za> (Accessed September 20, 2010).

3. Promoting more labour-absorbing industrial activities, with a particular emphasis on tradable labour, which absorbs goods and services and economic linkages that catalyze employment creation;
4. Promoting a broader-based industrialisation path characterised by increased participation of historically disadvantaged people and marginalised regions in the mainstream of the industrial economy and,
5. Contributing to the industrial development of Africa, with a strong emphasis on building productive capacities.<sup>106</sup>

Essentially, these measures form part of the core AGOA development approach. The ASGI-SA and NIPF were in this respect, adopted to promote poverty reduction through measures such as economic upgrading, expanding the market economy and a movement from almost exclusive dependence on primary economic activities toward a secondary and knowledge-based economy favourable for investment and employment creation. The Plans also served as blue prints for the integration and contribution of South Africa's industrial capacity to the industrial development of Africa.

With regard to economic upgrading and the transformation of South Africa's economy into an industrial and knowledge-based economy, the government adopted intervention measures aimed at (i) supporting investment to update ageing industrial machinery and manufacturing equipment stocks; (ii) deepening manufacturing capabilities; (iii) supporting industries and economic cluster-specific infrastructure, and (iv) addressing monopoly pricing in the country.<sup>107</sup> Other macroeconomic measures, such as currency stabilisation, inflation control and tariff reduction were also undertaken to facilitate the 'developmental state' agenda and South Africa's continuous eligibility for AGOA.

Using the HS8 most-favoured nation (MFN) tariff schedule for July 2000 and March 2001, combined with HS8 level import data for 2000, Cassim et al noted that "tariff reduction was

---

<sup>106</sup> The South African Department of Trade and Industry. *Industrial Policy Action Plan, 2*, [www.thedti.gov.za](http://www.thedti.gov.za) (Accessed September 25, 2010).

<sup>107</sup> *Ibid.*, 2.



achieved across all sectors (agriculture, manufacturing, mining and gas) during the period. In the manufacturing sector, they mentioned that the un-weighted average tariff dropped from 16% to 7%.”<sup>108</sup> With regard to the textiles and apparel industry, it has been mentioned by Roberts and Thoburn that, from 1993 to 2002, tariffs on yarn, fabrics and made-up household textiles fell significantly. According to them, tariffs on yarn “fell from 35% to 15%, on fabrics from 50% to 22%, and those on made-up household textiles from 60% to 30%. They further mentioned that the average tariffs on clothing fell from 100% to 40%.”<sup>109</sup> This means that within this nine-year period, tariffs in the textiles and apparel industry alone were reduced by more than half. These commercial policies were engineered to promote South Africa’s entry into the WTO, investment, as well as, cheap imports of yarn and fabric and exports of textiles and apparel to the U.S. because South Africa was eligible for AGOA’s textiles and apparel preferential treatment. With such reductions, manufacturers could import yarn and fabric at a reduced cost, which in turn would increase production and trade with the U.S. and other countries.

The government of South Africa also adopted incentive measures like the Duty Credit Certificate Scheme (DCCS) and the Interim Clothing and Textiles Scheme (ICTS). Launched in 1993, the DCCS provided two way incentives which included customs duty rebates on imported inputs<sup>110</sup> and “export incentives for manufacturers up to March 31, 2005. The ICTS was launched later as an interim measure to run until September 30, 2006,”<sup>111</sup> to solve the problems mentioned above as well as to facilitate negotiations between the government of South Africa, labour organisations, such as the South African Clothing and Textile Workers Union (SACTWU), and textiles and apparel manufacturers in South Africa on a Customised Sector Plan (CSP).

However, it was not until the adoption of a CSP that the government’s incentive package attracted internal and external challenges. Externally, the Schemes were regarded as non-compliant with WTO rules, according to which all government subsidies were being

---

<sup>108</sup> Cassim, R., Onyango, D. and Ernst van Seventer, D. *The State of Trade Policy in South Africa*, Trade and Industrial Policy Strategies (TIPS), 38, <http://www.tips.org.za> (Accessed September 27, 2010).

<sup>109</sup> Roberts, S. and Thoburn, J.T. “Globalisation and the South African Textile Industry: Impacts on Firms and Workers.” *Journal of International Development* , 16 (2004): 127.

<sup>110</sup> Van der Westhuizen, C., ‘*Trade and Poverty: A Case Study of the South African Clothing Industry*’, 8, <http://www.tips.org.za> (Accessed September 24, 2010).

<sup>111</sup> Barnes, J., ‘*A Strategic Assessment of the South African Clothing Sector*’, 9, <http://www.tips.org.za/> (Accessed September 27, 2010.2010).

disallowed.<sup>112</sup> Internally, uncompetitive manufacturers used the Scheme as a revenue generator by selling their certificates to retailers, who in turn used the certificate to receive 30% to 40% discount on imported apparel duties, thus reducing demand for domestically produced apparel and ultimately hurting domestically oriented clothing firms.<sup>113</sup> In spite of these challenges, a CSP was agreed upon by the stakeholders in the textiles and apparel industry in mid-2005.<sup>114</sup> In the CSP the stakeholders agreed:

1. To ask the government to engage in multilateral forums to ensure that South Africa could respond to the dumping (undervaluing or not declared) of illegal clothing and textiles;
2. To ask the government to improve the capacity and personnel at Customs Offices to help eliminate under-invoicing and illegal imports;<sup>115</sup>
3. To establish a partnership agreement between South Africa and SACU, in order to ensure consistency in policies such as transshipment;
4. To maintain tariffs at extant levels;
5. To monitor the temporary DCCS, the ICTS and its eventual replacement with a CSP, and
6. To explore export opportunities to the rest of Africa.<sup>116</sup>

These provisions tied local demands to external conditions and suggested that to prevent undervaluing, transshipment, smuggling and illegal imports, the government of South Africa

---

<sup>112</sup> Van der Westhuizen, C., *Trade and Poverty: A Case Study of the South African Clothing Industry*, 8, <http://www.tips.org.za> (Accessed September 24, 2010)

<sup>113</sup> Barnes, J., *A Strategic Assessment of the South African Clothing Sector*, 9, <http://www.tips.org.za/> (Accessed September 27, 2010.2010).

<sup>114</sup> Van der Westhuizen, C., *Trade and Poverty: A Case Study of the South African Clothing Industry*, 8, <http://www.tips.org.za> (Accessed September 24, 2010).

<sup>115</sup> As Mathabo le Roux noted in a *Business Day* article on December 8, 2008, Officials of the South African Revenue Service (SARS) seized 60 tons of clothes from a warehouse in Sasolburg a suburb in South Africa. The clothes were smuggled illegally from China and shipped through Botswana. In another development the statistics of South Africa Revenue Service (SARS) showed that textile and apparel worth R15.3 billion were exported from China to South Africa in 2007. However, invoices from the SARS reflected imports of clothing from China worth only R6.1bn, representing a 60% shortfall in invoicing. (Mathabo le Roux, "SARS seizes big shipment of Chinese contraband," *Business Day*. December 8, 2008, <http://www.businessday.co.za/Articles/Content.aspx?id=57579> (Accessed September 13, 2010).

<sup>116</sup> Van der Westhuizen, C., *Trade and Poverty: A Case Study of the South African Clothing Industry*, 8-9, <http://www.tips.org.za> (Accessed September 24, 2010).

should improve the capacity of its Customs Offices and collaborate with the SACU as well as the U.S. government to ensure consistency in the policies of the three bodies (the government of South Africa, the U.S. and the SACU). However, one area that was missing in the provisions was the adoption of prudent measures to address the problem of uncompetitive manufacturers who sell their certificates to retailers. In addition to this problem, another problem arose in a subsequent negotiation between stakeholders in the textiles and apparel industry, which was aimed at achieving consensus on the implementation procedures of the CSP. South African textiles and apparel manufacturers accused the government of South Africa and the SACTWU of sidelining them in the negotiations. The manufacturers argued that “the revision was less ‘biased’ towards business, and included an emphasis on black economic empowerment while proposing to exercise an interim scheme to replace the DCCS.”<sup>117</sup>

At the same time that these problems were developing, the South African economy was facing monetary problems, in the form of price deflation, the appreciation of the Rand against the U.S. Dollar (especially at the end of 2003) and a surge of imported textiles and apparel. The combination of these problems led to another restructuring of production and the labour component in the textiles and apparel industry. The restructuring was known as the Flexibilisation Strategy. In the Strategy, manufacturers reduced both the manufacturing function and the labour component of production. Some manufacturers became design houses or importers while others downsized, retrenched or casualised workers.<sup>118</sup>

The casualisation of workers in the Flexibilisation Strategy involved “the externalisation or outsourcing of the apparel assembly from manufacturing centres to households and increased reliance on previous employees for part-time, temporary or contract work. This serves as a cost prevention initiative by large manufacturers or as a livelihood strategy for retrenched workers.”<sup>119</sup> In this respect, even though the Strategy was a crisis respond initiative, it has created jobs for workers who would have otherwise been unemployed. Despite this advantage, the Strategy has created job insecurity. Household workers can lose their work at any time if

---

<sup>117</sup> Van der Westhuizen, C., ‘*Trade and Poverty: A Case Study of the South African Clothing Industry*’, 9, <http://www.tips.org.za> (Accessed September 24, 2010).

<sup>118</sup> Ibid., 9.

<sup>119</sup> Ibid., 9.

manufacturers contracted out production to other household workers who offer lower concessions. Again, the externalisation of production to households has endangered the accuracy of identifying the number of employed and the geographical distribution of production sites. It has also brought issues related to the accuracy of figures on the contribution of the sector to South Africa's GDP, which in turn, has stalled government intervention measures to target employees, especially in areas of enforcing wage regulation and skills training.

Paradoxically, the Strategy has also led to the underinvestment in both human and physical capital, because the externalisation of production has not added extra cost to manufacturers to invest in their employees through internship training and sponsorship. Neither has it increased the government's responsibility to provide physical infrastructures that would promote production. These responsibilities have, however, been shirked in favour of individual household workers.

As a result of the above mentioned problems, the contribution of the textiles and apparel industry to GDP, manufacturing output, export and employment have been decreasing dramatically. For example, the contribution of the textiles, apparel and leather industry as a percentage of South Africa's GDP fell from 3.72% in 2000 to 3.04% in 2004.<sup>120</sup> When the Rand devalued in 2001 and plummeted dramatically from \$U.S.1 = R6.10 in 1999 to around R12.11 = \$U.S.1 in 2001,<sup>121</sup> however, the South Africa textile and apparel manufacturers took advantage of the situation and expanded their exports, especially to the U.S.

The devaluation of the Rand coincided with South Africa's eligibility for AGOA's textile and apparel preferential treatment and export incentive programmes, such as the DCCS. These provided opportunities for South African textiles and apparel manufacturers to expand production and export to the U.S. Due to the devaluation of the Rand and the trade benefits that came with it, there were also massive investments in the industry. For instance, in October 2000, Ramatex Textiles (Malaysia) invested \$110 million in a textile mill and garment factory in the

---

<sup>120</sup> Van der Westhuizen, C., 'Trade and Poverty: A Case Study of the South African Clothing Industry', 6, <http://www.tips.org.za> (Accessed September 24, 2010). 6. (The three industries have been merged because the South Africa Reserve Bank categorise them as one sector of the country's economy).

<sup>121</sup> Morris, M. and Reed, L. *A Sectorial Analysis of Skills, Gaps and Shortages in the Clothing and Textile Industry in South Africa*. Department of Labour, South Africa, 17, <http://www.labour.gov.za/> (Accessed September 16, 2010)

Eastern Cape. In another related development, Frame Textiles (South Africa) planned an investment worth \$25 million to boost the firm’s competitiveness and capacity in a bid to penetrate the U.S. market more effectively.<sup>122</sup> However, Table 3 shows that, despite the Rand’s devaluation and the increase in investments and exports to the U.S., the internal problems facing the textiles and apparel industry could not be overcome. Exports to the U.S., just like the sector’s contribution to GDP, could not be sustained. The appreciation of the Rand (post 2003, hovering between \$U.S.1 = R6 – R7),<sup>123</sup> combined with external factors like the rules of origin governing the textiles and apparel trade under AGOA, the termination of the ATC in 2005 and the global financial crisis, exacerbated the problems facing the textiles and apparel industry (see Table 3).

From 2001 to 2003, South Africa’s exports of textiles and apparel under AGOA grew rapidly. In 2003, exports of textiles and apparel peaked at \$253,405,062 which represented an annual growth rate of 26.7%. However, the annual growth rate of exports of textiles and apparel fell to negative 5.7% (\$40,893,687) in 2008.

Table 3: South Africa’s General Exports of Textile and Apparel to the U.S. in U.S. Dollars (2001-2008).

Year	2001	2002	2003	2004	2005	2006	2007	2008
Exports	194,887,408	200,019,367	253,405,062	163,881,488	86,476,702	66,742,116	43,379,247	40,893,687
Growth Rate	19.3	2.6	26.7	- 35.3	- 47.2	- 22.8	- 35.0	- 5.7

Source: *U.S. Office of Textiles and Apparel*.<sup>124</sup>

As mentioned above, the appreciation of the Rand and the sale of DCCs to South Africa retailers contributed to a deterioration in the textiles and apparel industry. The devaluation of the Rand led to the diversion of the proportion of output of textiles and apparel produced by local manufacturers destined for the South African market. “Textiles and apparel manufacturers signed numerous export orders with U.S. retailers, which promised larger profits than did supplying the

<sup>122</sup> United States International Trade Commission. *U.S. Trade and Investment with Sub-Saharan Africa, Third Annual Report, December 2002*. 30, [http://agoa.gov/resources/index.asp#P11\\_229](http://agoa.gov/resources/index.asp#P11_229) (Accessed September 15, 2010).

<sup>123</sup> Morris, M. and Reed, L. *A Sectorial Analysis of Skills, Gaps and Shortages in the Clothing and Textile Industry in South Africa*. Department of Labour, South Africa, 17, <http://www.labour.gov.za/> (Accessed September 16, 2010).

<sup>124</sup> United States Office of Textiles and apparel, <http://otexa.ita.doc.gov/> (Accessed August 20, 2010).

domestic market.”<sup>125</sup> In response to the diversion of trade, South African retailers depended highly on foreign textiles and apparel manufacturers to supply the domestic market. At the same time, the sale of DCCS to retailers made such imports cheaper because retailers could earn 30% to 40% discount on imported textiles and apparel.

According to Roberts and Thoburn, the import penetration of textiles alone rose from 27% - 37% from 1990 to 2001. Export penetration of South African textiles and apparel to the world market, according to Roberts and Thoburn, increased from 16% - 23% within the same period.<sup>126</sup> This means that, within eleven years, textiles imports to South Africa increased by 10% while exports increased by only 7%. Notwithstanding the effects of the devaluation of the Rand on trade, when the Rand strengthened after 2003, it became expensive for South African manufacturers to increase exports to the U.S. At the same time, the diversion of trade and the discounts earned on textiles and apparel imported into South Africa had led to excessive competition in South Africa’s domestic market. In a report by the South African Department of Labour, it was mentioned that between 2002 and 2005, clothing sales in the South African market from local producers fell by 13.4% and textiles sales by 22%.<sup>127</sup> Imports of garments, according to the Report, increased four times from R1, 673 million in 2002 to R6, 898 million by 2006. The Report went further to mention that clothing imports from China alone increased from 16.5% in total Rand value in 1995 to 74.2% in 2005.<sup>128</sup>

The deterioration in the textiles and apparel industry can to a large extent also be linked to global developments in the textiles and apparel industry after 2004. Up until 2005, the textiles and apparel industry was protected by quotas imposed in the U.S. Because of the quota, U.S. retailers were compelled to source textiles and apparel from countries such as South Africa., because of the preferential treatment given to textiles and apparel made in South Africa. However, when the quota system was terminated in 2005, U.S. retailers began to source from competitive and

---

<sup>125</sup> Morris, M. and Reed, L. *A Sectorial Analysis of Skills, Gaps and Shortages in the Clothing and Textile Industry in South Africa*. Department of Labour, South Africa, 17, <http://www.labour.gov.za/> (Accessed September 16, 2010).

<sup>126</sup> Roberts , S. and Thoburn, J.T., ‘Globalisation and the South African Textile Industry: Impacts on Firms and Workers.’ *Journal of International Development*, 16 (2004): 129.

<sup>127</sup> Morris, M. and Reed, L., ‘*A Sectorial Analysis of Skills, Gaps and Shortages in the Clothing and Textile Industry in South Africa*’, Department of Labour, South Africa, 13, <http://www.labour.gov.za/> (Accessed September 16, 2010).

<sup>128</sup> Ibid. 16-18.

cheaper suppliers in countries such as China, Bangladesh and Cambodia. Again, under the AGOA legislation, the United States International Trade Commission (USITC) was tasked with the responsibility of determining on an annual basis the aggregate quantity of fabric and yarn available for production. Exporters from qualifying countries, such as South Africa, were compelled, on an annual basis, to source and utilise the annual determination of such fabrics and yarn for processing into qualifying exports under AGOA. Failure to utilise these (local, regional and U.S.) inputs would jeopardise the future eligibility of downstream clothing products under the Act.<sup>129</sup> Because of the low quality and quantity of yarn and fabric in SSA and the high cost of U.S. fabric and yarn, these provisions were later found to be unworkable and repealed on October 16, 2008 (Public Law 110-436).<sup>130</sup> However, before the repeal of these provisions, the devastating effect had already been felt by South Africa's textiles and apparel industry.

The problems which came with the termination of the ATC and the provisions governing the textiles and apparel trade under AGOA were further exacerbated by the global financial crisis. The global financial crisis reduced the purchasing power of American consumers, as well as investment inflow into South Africa. These contributed to the decline in exports to the U.S.

The question that consequently arises is: has AGOA been successful in promoting employment and poverty reduction in South Africa? The analysis has shown that the internal and external challenges that have been facing the South African textiles and apparel industry since the 1990s have been exacerbated by AGOA. The number of clothing workers employed in the formal sector who are registered with the South Africa National Bargaining Council decreased by a negative 25.7% between December 2004 and August 2007, the period which fell within the restructuring of production and labour in the textiles and apparel industry of South Africa, the appreciation of the Rand, the imposition of strict rules of origin on South Africa under AGOA, the termination of the ATC and the global financial crisis. The number of firms engaged in textiles and apparel production also decreased by 13.8% within the same period<sup>131</sup> (See Table 4).

---

<sup>129</sup> Naumann, E. AGOA at 10: Reflection on US-Africa Trade with a Focus on SACU Countries, 12, <http://www.tralac.org/cgi-bin/giga.cgi?c=1694> (Accessed February 25, 2011).

<sup>130</sup> Ibid., 12.

<sup>131</sup> Morris, M. and Reed, L. *A Sectorial Analysis of Skills, Gaps and Shortages in the Clothing and Textile Industry in South Africa*. Department of Labour, South Africa, 22, <http://www.labour.gov.za/> (Accessed September 16, 2010).

Table 4 shows that the South African government's poverty reduction strategy and South Africa's eligibility for AGOA's preferential treatment have only exacerbated the problem of unemployment and low investment in the textile and apparel industry.

Table 4: Clothing Manufacturing Employment Strength (2000-2007).

Year	31/12/2000	01/01/2002*	31/12/2002	31/12/2003**	31/12/2004	31/12/2005	31/12/2006	31/08/2007
Firms	702	651	672	1,090	1,169	1,138	1,048	1,008
Workers	69,954	62,712	65,585	95,187	97,958	83,081	74,456	72,796
Growth Rate Workers		- 10.4	4.6	45.1	2.9	- 15.2	- 10.4	- 2.2

Source: *South African Department of Labour*.<sup>132</sup>

\* Figures for 31/12/2001 are not available so the next best from 31/1/2002 were used.

\*\* From 25/07/2003, a collective agreement was published for the non-metro areas.

The figures reflected before this date, therefore, are only in respect of 'Metro' areas.

These programmes are still concentrated on promoting investment and reinvestment in capital-intensive sectors, such as mineral and energy related products leading to a volatile and negative trend of employment in labour intensive industries such as the textiles and apparel industry.

In addition to the issue of government policy, the rationalisation of operations, investment, upgrading of machinery and improvement in management have also contributed to the reduction of employment and closure, as well as the relocation of firms. The new generation of machines purchased in recent years have much greater output than those they replaced. A new loom or dyeing machine may increase production by 50% - 100% over the machines they replaced. This means higher productivity and lower unit labour costs, along with reductions in employment.<sup>133</sup>

In addition to the reduction in employment, the textile and apparel industry has, and remains, concentrated in three provinces, namely Western Cape, KwaZulu-Natal and Gauteng. According to the National Bargaining Council of South Africa, as of June 2004, there were 327 firms located in the Western Cape, 239 in the Northern areas, 219 in KwaZulu-Natal and 42 in the

<sup>132</sup> Morris, M. and Reed, L. *A Sectorial Analysis of Skills, Gaps and Shortages in the Clothing and Textile Industry in South Africa*. Department of Labour, South Africa, 16, <http://www.labour.gov.za/> (Accessed September 16, 2010).

<sup>133</sup> Roberts, S. and Thoburn, T.B. "Globalisation and the South African Textile Industry: Impacts on Firms and Workers." *Journal of International Development*, 16 (2004): 135.



Eastern Cape.<sup>134</sup> The Concentration of firms and physical infrastructures in these geographical areas have resulted in the reversal of the efforts to decentralise the industry through the relocation of firms away from towns, which were formerly hubs of textile activities, e.g. Mooi River, Harrismith and Butterworth. The effect has been the creation of industrial ghost towns.<sup>135</sup>

To summarise, the combination of internal and external problems e.g. a strict adherence to AGOA's rules of origin governing the textiles and apparel trade have contributed to the deterioration of economic activities in the textiles and apparel industry of South Africa. It is therefore not surprising that its contribution to South Africa's GDP fell from 5.09% in 2005 to 5.0% in 2006.

#### **4.4 AGOA and the Cotton-Textiles-Apparel Industry in Kenya**

Although South Africa and Kenya are eligible for AGOA's textiles and apparel preferential treatment, the experience of Kenya under the Act is different from South Africa's. The disappointing effects of SAP in the 1990s led the government of Kenya to adopt short, medium and long term development plans to curb the increasing rate of unemployment and poverty. The Interim Poverty Reduction Strategy (IPRS), which was implemented from 2000-2003, served as a short term development plan. The IPRS was replaced in 2003 with a medium term development strategy called the Economic Recovery Strategy for Wealth and Employment Creation 2003 – 2007 (ERS). The IPRS and the ERS, as a whole, laid the foundation for a long term development plan called Kenya Vision 2030. In Kenya Vision 2030, the government of Kenya has projected that “Kenya will become an industrialised, middle-income country which will provide a high quality life to all its citizens by the year 2030.”<sup>136</sup> Short, medium and long term development plans also form part of the government's efforts to build a market economy as well as to promote Kenya's continues eligibility for AGOA, because Kenya's eligibility for AGOA's preferential treatment can be terminated if the U.S. President determines that Kenya is receding from its commitment to a market economy.

---

<sup>134</sup> Barnes, J. *A Strategic Assessment of the South African Clothing Sector*, 5, <http://www.tips.org.za/> (Accessed September 27, 2010).

<sup>135</sup> Roberts, S. and Thoburn, J.T. “Globalisation and the South African Textile Industry: Impacts on Firms and Workers.” *Journal of International Development*, 16 (2004): 131.

<sup>136</sup> Kenyan Ministry of State for Planning, National Development and Vision 2030, *Kenya Vision 2030*, 1, <http://www.planning.go.ke/> (Accessed February 24, 2011)

As Kenya was eligible for AGOA's special apparel rule, the cotton-textiles-apparel industry (henceforth referred to as the production chain) was one of the manufacturing industries elevated to promote the goals of the country's development plan. As already mentioned, the production chain is seen as a 'strategic sub-sector' for every country, mainly because of the economic opportunities that come with it, as well as the capacity of the production chain to promote technological innovation and industrial linkages (backward linkage with the agricultural sector and industries that use cotton-related products, such as cotton seed in making soap).

To promote industrial development, investment and the quality of life of Kenyans, four main principles were espoused in the IPRS and ERS. These include:

1. Promoting an economy of macroeconomic stability;
2. Strengthening institutions of governance through capacity building and the rule of law;
3. Rehabilitating and expanding physical infrastructures and investment in human capital. The government called on the private sector, non-governmental and community-based organisations to get involved in activities, such as skills training and investment in productive enterprises that would improve the human and physical capital needed for economic development. The phrase 'the private sector is the engine of growth' became the slogan in the Strategies;
4. Promoting a favourable environment for private investment through the elimination of all requirements for the Trade Licensing Act, which constrained, controlled, and imposed extra costs on businesses without adding value to production. To promote this environment, efforts were made to increase the efficiency of Commercial Courts through improving the timeliness with which civil cases were disposed. Drastic steps were also taken to reduce excessive delays which add excessive costs to businesses at ports.<sup>137</sup>

Under macroeconomic stability, four major reforms were undertaken by the government of Kenya. First, the government set its priorities to maintain revenues at above 21% of GDP to enable the bulk of government expenditure to be financed from tax revenues. Private sector

---

<sup>137</sup> The Republic of Kenya. *Interim Poverty Reduction Strategy Paper for the period 2000-2003*, 25, <http://info.worldbank.org/etools/docs/library/81136/Nairobi2004/readings/countries/kenyaiprsp.pdf> ((Accessed September 10, 2010)).

investment, rationalisation of tax rates, broadening the tax base to include informal sectors and the modernisation of revenue administration to fight bribery and corruption were considered to be the best options to achieve this.<sup>138</sup> The second measure involved restructuring the government's expenditure to be more growth and pro-poor oriented. Against this background, the government deepened the Medium Term Expenditure Framework process, implemented the Country Financial Accountability Assessment Action Plan, Public Expenditure Management reforms, and utilised an annual Public Expenditure Review (PER) to inform resource allocation and distribution. The third measure focused extensively on deficit financing of nondomestic sources to enable the growth of private sector credit. In this respect, the government further cut its budget on subsidies. Finally, the Central Bank of Kenya was asked to pursue monetary policies consistent with promoting low inflation without compromising Kenya's recovery effort.<sup>139</sup>

As a result of these strategies, the Kenyan economy experienced significant growth, especially at the Export Processing Zones (EPZs). For instance, Kenya's economic growth rate in real GDP increased from 1.2% in 2002,<sup>140</sup> to 7.1% in 2007.<sup>141</sup> Between 2000 and 2006, investment in the textiles and apparel industry at the EPZs increased from Kshs. 1,200 billion to Kshs. 10,317 billion.<sup>142</sup> It is also important to mention that, in addition to the government's macroeconomic stability measures and the comparative advantage Kenya has in cotton production, Kenya's eligibility for AGOA's LDBDCs special rule and other preferential provisions governing the textiles and apparel trade under AGOA also contributed to the high investment in the textiles and apparel industry. Due to the favourable preferential treatment given to Kenya under AGOA, investors were drawn from countries such as the U.S., Britain, China, India and South Africa, primarily to take advantage of these opportunities.

---

<sup>138</sup> Kenyan Ministry of Planning and National Development, *Economic Recovery Strategy for Wealth and Employment Creation 2003-2007*, ix. [siteresources.worldbank.org/KENYAEXTN/Resources/ERS.pdf](http://siteresources.worldbank.org/KENYAEXTN/Resources/ERS.pdf) (Accessed September 27, 2010).

<sup>139</sup> *Ibid.*, ix.

<sup>140</sup> Kenyan Export Processing Zones Authority. *Kenya Country Profile 2005*, 5, <http://www.epzakenya.com/sector.php?sub=44&cat=12> (Accessed September 25, 2010).

<sup>141</sup> Kenyan Export Processing Zones Authority (EPZA), *Performance Report 2008/Annual Report 2008*, 3, <http://www.epzakenya.com/download.php> (Accessed September 24, 2010).

<sup>142</sup> *Ibid.*, 23. Annual Average exchange rate (Kshs/US\$): the year 2000 = 70.3. The year 2006 = 72.1

The comparative advantage Kenya has in cotton production can be seen in the availability of suitable land for cotton production in the country. According to the Kenyan Cotton Board, Kenya has about 350,000 hectares of land suitable for rain-fed cotton production and 34,500 hectares of land suitable for irrigated cotton.<sup>143</sup> The Board has also estimated that rain-fed cotton production alone has the capacity to produce about 260,000 bales of lint annually, whilst irrigated cotton can produce 108,000 bales of lint annually.<sup>144</sup> This means that about 384,500 hectares of land out of Kenya's 581,679 sq km area of dry land is suitable for cotton farming, with annual lint production of at least 368,000 bales.

Notwithstanding the comparative advantage Kenya has in cotton production and the huge investment in the textiles and apparel industry, it is disappointing to say that there has not been a correlated investment between the cotton industry and the textiles and apparel industry. This has led to low lint production. In 2003, it was estimated that about 25,000 hectares or 7% of suitable land was under cotton farming with annual lint production of 20,000 bales.<sup>145</sup> This fell short of the annual domestic demand of 60,000 to 120,000 bales.<sup>146</sup> As a result of the high dependence of the textiles and apparel industries on lint production, low output of lint has had negative effects on the textiles and apparel industry. It is therefore not surprising that when the world market demand for lint increased in 2005, after the termination of the ATC, which increased textiles and apparel production in the world, the number of firms producing apparel in Kenya declined from 35 (in 2003) to 25.<sup>147</sup>

Several internal and external factors have contributed to the decrease in the number of firms and the low quantity of lint production in Kenya. The first internal factor is the government's reforms and deficit financing measures under the IPRS and ERS. Under these reform measures, the government of Kenya has transferred the duties and responsibilities of state institutions, such as the Kenya Cotton Board and Extension Offices, to private traders. This has led to institutional

---

<sup>143</sup> Kenyan Export Processing Zones Authority. *Kenya's Apparel and Textile Industry 2005*, 2, <http://www.epzkenya.com/sector.php?sub=44&cat=12> (Accessed September 10, 2010).

<sup>144</sup> *Ibid.*, 2.

<sup>145</sup> *Ibid.*, 2.

<sup>146</sup> Kenyan Export Processing Zones Authority. *Kenya's Apparel and Textile Industry 2005*, 7, <http://www.epzkenya.com/sector.php?sub=44&cat=12> (Accessed September 10, 2010).

<sup>147</sup> Kenyan Export Processing Zones Authority. *Performance Report 2008/Annual Report 2008*, 28, <http://www.epzkenya.com/download.php> (Accessed September 10, 2010).

weakness, budget cuts and retrenchment of personnel in the Cotton Board and Extension Offices. When the Cotton Board and Extension Offices were “stripped of their role, private agents entered the cotton industry especially in primary purchase, sale of pesticides, farming inputs, transportation, and ginning.”<sup>148</sup> However, “the emergence of these private traders, competing to maximize profits, seriously affect quality through undifferentiated quality purchases, and through the collapse of the systems through which the government provided credited inputs and extension services to producers.”<sup>149</sup>

The second internal factor affecting lint production is the creation of institutions such as the EPZA, the Cotton Board, the Cotton Lint and Seed Marketing Board, the Manufacturing Under Bond Scheme (MUB) and the Crop Department of the Ministry of Agriculture to promote trade, investment and employment without the establishment of an “apex stakeholder institution or rules to coordinate affairs between these institutions and the production chain, or to ensure a backward linkage between various stages in the production chain which would provide necessary regulatory and cost-reduction interventions.”<sup>150</sup> The third internal factor is the lack of incentives from the government to stimulate investment in cotton farming, ginning, spinning or the fabric stages of the production chain. This is primarily due to the government’s extreme interest in promoting the textiles and apparel industry to the neglect of the cotton industry. Finally, the government’s development plans lack proper policy management (implementation procedures, monitoring and evaluation) to improve macroeconomic management and accumulate the necessary capital and skills needed for effective, efficient and increased production in the various stages of the production chain.<sup>151</sup>

Due to the low quantity of lint production, there has been a surge in imported fabric, yarn, used and new clothes (see Table 5). Table 5 shows that, in 2003, local manufacturers supplied 45.3% of textiles and apparel to the domestic market. Imported fabric, new and used clothes accounted for 54.7% of the domestic market’s textiles and apparel supply. It can also be deduced that a

---

<sup>148</sup> Ikiara, M.M. and Ndirangu, L.K. *Prospects of Kenya’s Clothing Exports under AGOA after 2004*, The Kenya Institute for Public Policy Research and Analysis (Discussion Paper No. 24), 17, [http://www.kippra.org/resources/publications.asp#Annual%](http://www.kippra.org/resources/publications.asp#Annual%20) (Accessed September 10, 2010).

<sup>149</sup> *Ibid.*, 32.

<sup>150</sup> *Ibid.*, 3.

<sup>151</sup> *Ibid.*, 3.

significant proportion of the 45.3% of textiles and apparel supplied by domestic manufacturers to the domestic market was manufactured from imported fabric.

Table 5: Kenya's Domestic Textiles and Apparel Market (2003).

Item	Fabric Equivalent (Million Sq. Metres)	Market Share (%)
Imported fabric	32.0	17.5
Imported new clothes	38.0	20.8
Imported used clothes	30.0	16.4
Local manufactured items	83.0	45.3
<b>Total</b>	<b>183.0</b>	<b>100.0</b>

Source: *Kenyan Export Processing Zones Authority. Kenya's Apparel and Textile Industry – referring to the Ministry of Trade and Industry's paper on the cotton /textile sub-sector (March 2004).*<sup>152</sup>

Although the Kenyan market has been flooded with imported fabric, new and used clothes, it is important to say that exports to countries such as the U.S. have increased significantly. The increase in exports to the U.S. has been facilitated by AGOA's favourable preferential treatment of textiles and apparel manufactured in Kenya. Under AGOA's LDBDCs special rule, Kenya can import fabric from anywhere in the world regardless of origin, to manufacture apparel. As a result of this rule, the high dependence of the textiles and apparel industry of Kenya on imported fabric has not affected the country's exports to the U.S. For instance, in 2005, it was estimated that, increased investment in Kenya's textiles and apparel industry brought the total manufacturing demand for fabric to about 225 million square metres.<sup>153</sup> Though this was met with imported fabric from countries such as China, Israel, Egypt and Australia, the final product was eligible for AGOA's preferential treatment.

Notwithstanding the favourable preferential treatment given to Kenya under AGOA, the effects of external factors, such as the termination of the ATC and the global financial crisis have shown that Kenya's textiles and apparel industry is still vulnerable because of the low quality and

<sup>152</sup> Kenyan Export Processing Zones Authority. *Kenya's Apparel and Textile Industry 2005*, 7, <http://www.epzakenya.com/sector.php?sub=44&cat=12> (Accessed September 10, 2010).

<sup>153</sup> Ikiara, M.M. and Ndirangu, L.K. *Prospects of Kenya's Clothing Exports under AGOA after 2004*, The Kenya Institute for Public Policy Research and Analysis (Discussion Paper No. 24), 5, <http://www.kippra.org/resources/publications.asp#Annual%20Reports> (Accessed September 10, 2010).

quantity of domestically produced lint. Up until 2005, the textiles and apparel imported into the U.S. was protected by quotas imposed in the U.S. Due to the quotas, U.S. retailers were compelled to source textiles and apparel from non-restricted countries<sup>154</sup> like Kenya. However, when the ATC was terminated in 2005, U.S. retailers began to source textiles and apparel from competitive and cheaper sources in countries such as China, Bangladesh, India and Cambodia. The termination of the ATC, as already mentioned, also increased the world market demand for fabric and yarn. This affected countries such as Kenya which are not self sufficient in fabric and yarn production. The problem of increased market demand for fabric and yarn and the fierce competition in markets which provide preferential treatment to Kenya was further exacerbated by the global financial crisis, which reduced the purchasing power of consumers and investment inflow into Kenya. Table 6 shows that from 2005 to 2008, the success chalked up in the U.S. market during the first four years of preferential treatment in the U.S. market began to erode because of the internal and external factors mentioned above.

Table 6: Kenya's General Exports of Textile and Apparel to the U.S. in U.S. Dollars (2001-2008).

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Exports	44,048,429	64,692,013	125,904,729	187,954,297	277,326,532	271,021,220	263,721,082	249,036,112	246,906,070
Growth Rate	11.6	46.9	94.6	49.3	47.5	- 2.3	- 2.7	- 5.6	- 0.9

Source: *U.S Office of Textile and Apparel*.<sup>155</sup>

Table 6 shows that from 2001 to 2004, because of the favourable preferential treatment given to Kenya under AGOA and the quota imposed on textiles and apparel imported from countries such as China into the U.S. under the ATC, Kenya's textiles and apparel exports to the U.S. increased from \$64,692,013 to \$277,326,532, which represented an increase of 328.7%. This remarkable export performance made Kenya the third largest AGOA textile and apparel exporter after Lesotho and Madagascar in 2004 (refer to Table 2). However, exports to the U.S. began to decrease after the termination of the ATC and the global financial crisis. From 2004 to 2008, the rate of export decreased by -11%. The result of such abysmal performance has been the closure

<sup>154</sup> Naumann, E. AGOA at 10: Reflection on US-Africa Trade with a Focus on SACU Countries, 20, <http://www.tralac.org/cgi-bin/giga.cgi?c=1694> (Accessed February 25, 2011).

<sup>155</sup> United States Office of Textiles and apparel, <http://otexa.ita.doc.gov/> (Accessed August 20, 2010).

and relocation of production of many firms. For instance, in 2008, firms such as Apex Apparel EPZ Ltd. and Upan Wasana EPZ Ltd. closed down production. Other firms, such as Global Apparel K. EPZ Ltd and Sino Link EPZ Ltd have also subcontracted production to other manufacturers.<sup>156</sup>

The persistent increase in subcontracting and closure of firms and the decrease in exports and the quantity of lint production has led to job losses. Table 7 shows that from 2005 to 2008, the rate of employment and investment in the textile and apparel industry decreased drastically. Employment in the EPZ textiles and apparel industry increased from 12,002 in 2001 to 36,348 in 2003, representing a growth rate of 202.9%. Within the same period, investment increased by 159.6%, that is, from Kshs. 1.2 billion in 2001, to Kshs. 9.7 billion in 2003. However, employment fell from 36,348 in 2003 to 25,766 in 2008, which represented a decrease of 29.1%. Investment also fell from Kshs. 9.7 billion in 2003 to Kshs. 7,578 billion in 2008. It has also been estimated that about 140,000 cotton farmers were employed in 2003, which was a very low number, compared to over 200,000 farmers in the mid-1980s.<sup>157</sup>

Table 7: The Impact of AGOA and End of Quotas on the EPZ Textiles and Apparel Industry (2000 – 2008).

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of Firms	6	17	30	35	30	25	25	22	18
Investment (Kshs. Million)	1,200	3,740	6,908	9,710	8,595	9,977	10,317	8,314	7,578
Number of Employed	6,487	12,002	25,288	36,348	34,614	34,234	31,813	28,506	25,766
Employment Growth Rate		85.0	110.7	43.7	- 4.8	- 1.1	- 7.1	- 10.4	- 9.6
Annual average exchange rate (Kshs/US\$)	76.2	78.6	78.7	75.9	79.3	75.6	72.1	67.3	69.2

Source: EPZA: *Kenya's Textiles and Apparel industry 2005*<sup>158</sup> and EPZA Annual Report, 2008.<sup>159</sup>

<sup>156</sup> Kenyan Export Processing Zones Authority (EPZA), *Performance Report 2008/Annual Report 2008*, 23, <http://www.epzakenya.com/download.php> (Accessed September 24, 2010).

<sup>157</sup> Kenyan Export Processing Zones Authority. *Kenya's Apparel and Textile Industry 2005*, 2, <http://www.epzakenya.com/sector.php?sub=44&cat=12> (Accessed September 10, 2010).

<sup>158</sup> Ibid., 13.

<sup>159</sup> Kenyan Export Processing Zones Authority (EPZA), *Performance Report 2008/Annual Report 2008*, 23, <http://www.epzakenya.com/download.php> (Accessed September 24, 2010).



In addition to the problems mentioned above, other internal factors, such as the lack of skilled workers and low labour productivity, have affected the textiles and apparel industry's growth. According to Ikiara and Ndirangu, the average textile worker in Kenya requires about 5 years of training to attain the skill and productivity level of a similar worker in China.<sup>160</sup> This means that labour productivity is lower in Kenya compared to China, thus making the textiles and apparel industry in China more competitive than Kenya.

In addition to low productivity, the textile and apparel industry has been identified as one of the manufacturing industries that lack qualified managers and design experts to formulate and ensure efficient and effective coordination in production in Kenya. This problem has also inhibited the smooth trade gains of the industry. Ikiara and Ndirangu argue that, notwithstanding the Kenyan government's short to long term development plans, Kenya has no explicit human resource development plan to boost production. They further mention that the mainstream academic institutions which offer courses in the field of textiles (Moi University and the Directorate of Industrial Training) have not adequately catered for the industry's needs through designing courses that fit the requirements of the industry. Moreover, they have suggested that corruption and bureaucratic delays over migration procedures have affected the hiring of experts in the international market who have experience in producing and marketing value-added manufactured products for the U.S. market.<sup>161</sup> These internal problems were further exacerbated by the post-election violence in Kenya in 2008 which increased the flight of experts and capital from the country.

To summarise, AGOA's favourable preferential treatment of Kenya's textiles and apparel industry has, indeed, promoted and safeguarded the respective industry in Kenya. South Africa's experience shows that, although economic activities in the textiles and apparel industry of Kenya decreased from 2005 to 2008, it would have been worse without the favourable preferential treatment given to Kenya under AGOA.

---

<sup>160</sup> Ikiara, M.M. and Ndirangu, L.K. *Prospects of Kenya's Clothing Exports under AGOA after 2004*, The Kenya Institute for Public Policy Research and Analysis (Discussion Paper No. 24), 44, <http://www.kippra.org/resources/publications.asp#Annual%20Reports> (Accessed September 10, 2010).

<sup>161</sup> *Ibid.*, 44-45.

## CHAPTER 5

### CONCLUSION

South Africa and Kenya serve as good examples of the relationship between trade liberalisation and preferential treatment on the one hand, and the promotion of poverty reduction on the other. The analysis of the impact of AGOA on poverty reduction in the two countries has shown mixed results. Using the textiles and apparel industry of Kenya and South Africa as a case study, the analysis shows that AGOA has achieved much success in contributing to the reformation and integration of the economies of Kenya and South Africa into the global economy. However, AGOA's success in promoting poverty reduction through economic activities, such as trade, investment and employment in the two countries has been mixed. While AGOA has contributed positively to promoting and safeguarding economic activities in the textiles and apparel industry in Kenya, the economic problems facing South Africa's textiles and apparel industry has been exacerbated by AGOA.

The historical analysis of the development of the textiles and apparel industry in the two countries has shown that in the 1970s, because of the ISI strategy, the textiles and apparel industry accounted for a significant proportion of employment. However, in the 1980s, it was realised that the increased budget deficit incurred by the government of the two countries due to subsidised farming inputs and credits, the determination of prices of goods below the market price by MBs, and in the case of South Africa, the increased agitation of workers in the former homelands for good working conditions made ISI costly. Against this background, economic reforms were implemented in these countries to transfer development from the state-centric approach to a market economy which protects the individual's rights to engage in entrepreneurial activities. The economic reforms adopted in Kenya and South Africa included deregulation, privatisation of SOEs and commercial policies, such as tariff reduction. In Kenya, the promotion of these liberal policies led to the abolition of trade union activities and a 10 year tax holiday for industries established in the EPZs. South Africa also adopted aggressive tariff reduction measures but protected trade union activities. South Africa further gave incentives, such as the DCCS to promote exports and investment. However, notwithstanding the promotion of these

economic reforms in the two countries, the analysis has shown that economic conditions could not improve.

Against this background, AGOA was adopted to promote poverty reduction in eligible SSA countries through trade and investment. However, as already mentioned, the analysis has shown that the impact of AGOA in Kenya and South Africa has been mixed. In South Africa it was found that, despite the short term success of AGOA, monetary problems like the appreciation of the Rand and external factors such as AGOA's rules of origin, the global financial crises and the termination of the ATC have exacerbated the problems facing the textiles and apparel industry of South Africa. The exchange rate – devaluation of the South African Rand against the U.S. Dollar – in 2000/2001 motivated South African manufacturers to restructure the proportion of their output going to the domestic market. Despite this, the advantages gained in exports from a favourable exchange rate and preferential access to the U.S. began to wane when the Rand appreciated against the Dollar. On the other hand, the appetite to export combined with reduced tariffs, non-tariff barriers and the dubious activities of manufacturers who sold DCCs to retailers led to excessive competition and the penetration of foreign textiles and apparel into the South African market. From 2004, when the Rand appreciated against the Dollar, South African textiles and apparel manufacturers had to compete to recapture their domestic market.

The problem facing the textiles and apparel industry was, however, worsened after the termination of the ATC in 2005, the global financial crisis and AGOA's rules of origin governing the textiles and apparel trade. The termination of the ATC brought an end to a quota system that had been imposed by South Africa and countries such as the U.S. to protect their market against textiles and apparel originating from countries such as China. Its termination led to a surge of imported textiles and apparel into the South African market as well as excessive competition in foreign markets, such as the U.S. which give preferential treatment to South Africa. In addition to the termination of the ATC, the global financial crisis limited the purchasing power of American consumers and investment inflow into South Africa. The strict enforcement of the rules of origin under AGOA also limited South Africa's competitiveness because South Africa could not import yarn and fabric from cheaper sources outside the U.S. and eligible SSA countries.

Similar factors have contributed to the deterioration of Kenya's textiles and apparel industry. Although the export of textiles and apparel from Kenya to the U.S., as well as employment, has been decreasing over the years, South Africa's shows that the result would have been worse without favourable preferential treatments, such as AGOA's special rule. For the first four years after the passage of AGOA, there was a high inflow of foreign investment in the textiles and apparel industry of Kenya. However, the high investment in the textiles and apparel industry did not correlate with investment in the cotton industry. Factors ranging from the government's commercial policies, which led to budget cuts, retrenchment of personnel and services of state institutions, such as the Cotton Board of Kenya and Extension Offices, to the creation of numerous institutions to promote trade and investment, without the establishment of an apex institution to establish rules or coordinate affairs between institutions and to ensure correlated investment within the production chain has affected cotton production and the growth of the textiles and apparel industry. The Kenyan government has focused its policies extensively on investment in the textiles and apparel industry to the neglect of the cotton industry. These internal problems were further exacerbated by the post-election violence in 2008, which led to the flight of capital and experts who have experience in producing and marketing value-added products to the U.S. market. In addition to these internal problems, external factors, such as the termination of the ATC and the global financial crisis have also contributed significantly to the deterioration of the textiles and apparel industry in Kenya.

In light of the above problems, it is important that reform measures are implemented to realise the full advantage of AGOA. The first act of recourse must come from the U.S. From the analysis it was realised that favourable preferential treatments e.g. AGOA's special rule have been able to sustain and safeguard economic activities in Kenya's textiles and apparel industry against global shocks, such as the termination of the ATC and the global financial crisis. Such a favourable rule can be extended to cover all eligible SSA countries. It has also been realised that the continuous amendment of the textiles and apparel provision has promoted uncertainty in investment. In this respect, factors such as the constantly changing and short duration of AGOA's textiles and apparel provisions have made it difficult for manufacturers to develop long term production plans. In addition to the short duration of AGOA's textiles and apparel provisions, AGOA is a non-reciprocal trade agreement. This has left the termination of its

preferential treatment at the mercy of the U.S. Congress. As economic development in SSA affects the development of the U.S., the U.S. should move forward and establish free trade agreements or reciprocal trade agreements with SSA countries. This will help promote certainty and the long term planning of production for manufacturers.

Notwithstanding the above mentioned recommendations, it is important to say that the impetus of poverty reduction in SSA does not rest solely on the shoulders of the U.S., but also on the shoulders of governments in SSA. The research found that the textiles and apparel industry, especially in Kenya, lacks expertise with the experience in producing and marketing value-added products to the U.S. market and the managerial skills needed for production. Such a problem can be addressed when the government of Kenya adopts explicit human resource development plans to boost production in the textiles and apparel industry. Mainstream academic institutions should also be adequately funded to offer courses in the field of textiles to cater for the industry's needs through designing courses that fit the requirements of the industry. The fight against corruption and bureaucratic delays over migration procedures should also be institutionalised to promote the smooth operation of industries and access to experts in the international market who have experience in producing and marketing value-added products to the U.S. and other foreign markets.

In addition, cotton production should become a priority in development policies in Kenya and South Africa. As the cotton industry has the capacity to promote employment for both cotton farmers and employees in the textiles and apparel industry, as well as production in other industries that use cotton products, the promotion of investment in the cotton industry should be strengthened in the development plans of Kenya and South Africa.

Lastly, recommendations for further study cannot be overstated. There is the need to direct research activities at assessing the impact of AGOA on the quality of life of Kenyans and South Africans. Such analysis could explore the impact of AGOA on the achievement of the Millennium Development Goals which include poverty and hunger eradication, gender equality and the empowerment of women, reduction of child mortality among the children of workers and improving maternal health among employed and retrenched workers in the textiles and apparel industry of Kenya and South Africa. It should aim at assessing the impact of AGOA on the

standard of living or quality of life of employed and retrenched workers in the textiles and apparel industry of Kenya and South Africa.

## BIBLIOGRAPHY

African Growth and Opportunity Act. [www.agoa.gov](http://www.agoa.gov) (Accessed January 6, 2010).

African Growth and Opportunity Act. "Apparel Eligibility."  
[http://www.agoa.gov/eligibility/apparel\\_eligibility.html](http://www.agoa.gov/eligibility/apparel_eligibility.html) (Accessed October 9, 2010).

African Growth and Opportunity Act. "One Hundred and Sixth Congress of the United States of America, The African Growth and Opportunity Act."  
[http://agoa.gov/agoa\\_legislation/agoatext.pdf](http://agoa.gov/agoa_legislation/agoatext.pdf) (Accessed November 20, 2010).

Barker, H. A. F. "The Clothing Industry in South Africa." *South African Journal of Economics* 29, no. 4 (1961): 243-257.

Barnes, Justin. "A Strategic Assessment of the South African Clothing Sector."  
<http://www.tips.org.za/> (Accessed September 27, 2010).

Cassim, Rashad, Donald Onyango and Dirk Ernst van Seventer. "The State of Trade Policy in South Africa." *Trade and Industrial Policy Strategies (TIPS)*. <http://www.tips.org.za> (Accessed September 27, 2010).

Cohn, Theodore H. "Global Political Economy: Theory and Practice." 4<sup>th</sup> Edition, New York: Longman, 2008.

Committee on International Relations. "African Growth and Opportunity Act: A five year Assessment." Washington: U.S Government Printing Office, 2006,  
<http://www.foreignaffairs.house.gov/archives/109/24056.pdf> (Accessed May 20, 2010).

Friedman, Milton. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962.

Gibbon, Peter. "South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints," in *Clothing and Footwear in African Industrialisation*, Dorothy McCormick and Christian M. Rogerson, (eds), 148-192. Pretoria, South Africa: Africa Institute of South Africa, 2004.

Ikiara, Moses M. and Lydia K. Ndirangu. "Prospects for Kenya's Clothing Exports under AGOA after 2004." In *Clothing and Footwear in African Industrialization*, Dorothy McCormick and Christian M. Rogerson (eds), 235-270. Pretoria: African Institute for South Africa, 2004.

Ikiara, Moses M. and Lydia K. Ndirangu. "Prospects of Kenya's Clothing Exports under AGOA after 2004." *The Kenya Institute for Public Policy Research and Analysis*. Discussion Paper No. 24. <http://www.kippra.org/resources/publications.asp#Annual%20Reports> (Accessed September 10, 2010).

Inama, Stefano. *Rules of Origin in international Trade*. New York: Cambridge University Press, 2009.

International Labour Organisation. Department of Statistics. LABORSTA. <http://laborsta.ilo.org/> (Accessed July 12, 2010).

Kenyan Export Processing Zones Authority. "Kenya Country Profile 2005." <http://www.epzakenya.com/sector.php?sub=44&cat=12> (Accessed September 25, 2010).

Kenyan Export Processing Zones Authority. *Kenya's Apparel and Textile Industry 2005*. <http://www.epzakenya.com/sector.php?sub=44&cat=12> (Accessed September 10, 2010).

Kenyan Export Processing Zones Authority (EPZA). "Performance Report 2008/Annual Report 2008." <http://www.epzakenya.com/download.php> (Accessed September 24, 2010).

Kenyan Investment Authority. "Kenya's Textile and Apparel Industry 2005." [www.investmentkenya.com](http://www.investmentkenya.com) (Accessed July 6, 2010).

Kenyan Ministry of Planning and National Development. "Economic Recovery Strategy for Wealth and Employment Creation 2003-2007." [siteresources.worldbank.org/KENYAEXTN/Resources/ERS.pdf](http://siteresources.worldbank.org/KENYAEXTN/Resources/ERS.pdf) (Accessed September 27, 2010).

Keynes, John M. *The General Theory of Employment, Interest, and Money*. New York: Harcourt, Brace and World, 1936.



Kinyanjui, Mary, Pater Ligulu and Dorothy McCormick. "Clothing and Footwear in Kenya: Policy and Research Concerns." In *Clothing and Footwear in African Industrialization*, Dorothy McCormick and Christian M. Rogerson (eds), 193-216. Pretoria, South Africa: Africa Institute of South Africa, 2004.

Langton, Danielle. "U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond." <http://www.fas.org/sgp/crs/row/RL31772.pdf> (Accessed January 16, 2010).

Le Roux, Mathabo. "SARS seizes big shipment of Chinese contraband." *Business Day* December 8, 2008. <http://www.businessday.co.za/Articles/Content.aspx?id=57579> (Accessed September 13, 2010).

Morris, Mike and Reed, Lyn. *A Sectorial Analysis of Skills, Gaps and Shortages in the Clothing and Textile Industry in South Africa*. Department of Labour, South Africa. <http://www.labour.gov.za/> (Accessed September 16, 2010)

Naumann, Eckart. AGOA at 10: Reflection on US-Africa Trade with a Focus on SACU Countries. <http://www.tralac.org/cgi-bin/giga.cgi?c=1694> (Accessed February 25, 2011).

Office of the United States Trade Representative. "2005 Comprehensive Report on U.S. Trade and Investment Policy toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act." <http://www.agoa.gov/resources/index.asp> (Accessed November 24, 2010).

Office of the United States Trade Representative. "2008 Comprehensive Report on U.S. Trade and Investment Policy toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act." [http://agoa.gov/resources/index.asp#P11\\_229](http://agoa.gov/resources/index.asp#P11_229) (Accessed September 15, 2010).

Office of the United States Trade Representative. "Africa." <http://www.ustr.gov/countries-regions/africa> (Accessed May 4, 2010).

Omolo, Jacob O. "The Textile and Clothing Industry in Kenya." In *The Future of the Textile and Clothing Industry in Sub-Saharan Africa*, Herbert Jauch and Rudolf Traub-Merz. (eds), 147-164,

<http://tanzania.fes-international.de/doc/the-future-of-the-textile-and-clothing-industry-in-sub-saharan-africa.pdf#page=141> (Accessed January 14 2010).

Polanyi, Karl. *The Great Transformation, the Political and Economic Origins of our Time*. Boston: Beacon Press, 1957.

Republic of Kenya. "Interim Poverty Reduction Strategy Paper for the period 2000-2003." <http://info.worldbank.org/etools/docs/library/81136/Nairobi2004/readings/countries/kenyaiprsp.pdf> (Accessed September 10, 2010).

Reid, Kabelo. An Assessment of Textile Production in a Decentralised Locality. South African Department of Trade and Industry. <http://www.tips.org.za/> (Accessed September 10, 2010).

Roberts, Simon and John Thoburn. "Adjusting to trade liberalisation: The case of firms in the South African textiles sector." *Journal of African Economies* 12, No. 1 (2003): 74-103.

Roberts, Simon and John Thoburn. "Globalisation and the South African Textile Industry: Impacts on Firms and Workers." *Journal of International Development* 16, (2004) 125-139.

Rogerson, Christian M. "Sunrise or Sunset industries? South Africa's Clothing and Footwear Sector." In *Clothing and Footwear in African Industrialization*, Dorothy McCormick and Christian M. Rogerson. (eds), 110-147. Pretoria, South Africa: Africa Institute of South Africa, 2004.

Salinger, B. Lynn, Haroon Borat, Diane P. Flaherty, and Malcolm Keswell. "Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa." [http://pdf.usaid.gov/pdf\\_docs/PNACH147.pdf](http://pdf.usaid.gov/pdf_docs/PNACH147.pdf) (Accessed July 18, 2010).

South African Department of Trade and Industries. Annual Reports 2007/08. "National Industrial Framework." <http://www.dti.gov.za/publications/publications.htm> (Accessed September 25, 2010).

South African Department of Trade and Industry. "Industrial Policy Action Plan." [www.thedti.gov.za](http://www.thedti.gov.za) (Accessed September 25, 2010).

Tabb, William K. "Globalization Is An Issue: The Power of Capital Is An Issue," *Monthly Review Press* (1997): 1-7.

Takala, Lotta. "The Role of Industrial Policy and the Minerals-Energy Complex in the Decline of South African Textiles and clothing." <http://www.tips.org.za> (Accessed September 20, 2010).

The Library of Congress. Hon. Philip Crane. *African Growth and Opportunity: The end of Dependency Act*. <http://thomas.loc.gov/cgi-bin/query/D?r104:1:./temp/~r104FjAk35:> (Accessed May 12, 2010).

Thompson, Carol B. "US trade with Africa: African growth and opportunity?" *Review of African Political Economy*, 31, No. 101 (2004): 457-474.

Todd, Landman. *Issues and Methods in Comparative Politics: An Introduction*, 2<sup>nd</sup> Edition. New York and London: Taylor and Francis Group, 2003.

United Nations Conference on Trade and Development (UNCTAD). "The Least Developed Countries Report 2002: Escaping the Poverty Trap". [http://www.unctad.org/en/docs/ldc2002\\_en.pdf](http://www.unctad.org/en/docs/ldc2002_en.pdf) (Accessed September 10, 2010).

United States International Trade Commission. "U.S Trade and Investment with Sub-Saharan Africa. Third Annual Report, Investigation No. 332-415". USITC Publication 3552. December 2002. [www.usitc.gov](http://www.usitc.gov) (Accessed August 24, 2010).

United States Office of Textile and apparel. "United States Trade Data". <http://otexa.ita.doc.gov/> (Accessed August 20, 2010).

Van de Walle, Nicolas. "U.S Policy towards Africa: the Bush legacy and the Obama administration." *African Affairs*, 109, No. 434 (2009): 1-21.

Van der Westhuizen, Christi. "Trade and Poverty: A Case Study of the South African Clothing Industry." <http://www.tips.org.za> (Accessed September 24, 2010).

Wolf, Martin. *Why Globalisation Works*. New Haven and London: Yale University Press, 2004.