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AFRICA'S GROWTH AND OPPORTUNITY ACT: ECONOMIC POLICY IMPLICATIONS FOR KENYA.

BY

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DECLARATION.

This dissertation is my original work and has not been presented for a degree in any other University.

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In memory

This is in memory of my father, Enosh Abok Hadao who left us on 25th August, 2002. He dearly cherished education. He believed that education emancipates one from ignorance and servitude and leads one to the world of abundance. I dedicate this dissertation and the achievements before and thereafter to him.

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ABBREVIATIONS

AGOA	Africa's Growth and Opportunity Act.
AIDS	Acquired Immune Deficiency Syndrome
EPZ	Export Processing Zones
EPZA	Export Processing Zones Authority
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
IDA	International Development Association
IMF	International Monetary Fund
LDCs	Less Developed Countries
LTA	Long Term Agreement
MFA	Multi Fibre Arrangement
OPEC	Organization of Petroleum Exporting Countries
STA	Short Term Agreement
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference On Trade And Development.
US	United States
USA	United States of America
USAID	United States Agency for International Development
WTO	World Trade Organization

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ABSTRACT.

The study examines the policy areas that Kenya needs to improve on in order to take full advantage of Africa's Growth and Opportunity Act (AGOA). The Act, as a new US trade and policy towards Sub-Saharan Africa, provides liberal conditions to Africa's exports to the United States. The situation is that Africa's products would enter the US markets under duty free conditions, subject to the rules of eligibility being met by the beneficiary countries.

Kenya is one of the countries in Africa which is targeted by the Act. It suffers from the economic problems facing the continent, namely indebtedness, low export earnings, dependency on development assistance and low investment inflows among others. These are partly caused by weak internal policies and also by external factors. The consequence is widespread poverty among the population as a result of decline in economic growth and performance.

In Chapter One, the background to AGOA is discussed and it is shown that the economies of Africa are characterised by myriad problems embodied in Kenya. It is particularly shown that trade policies of both the US and Africa to date are protectionist. African states also continue to suffer because the sectors, namely agriculture and manufacturing utilize outdated technology hence need to modernize them to be able to compete. The study also reveals that there is little integration of the sectors hence the linkages effects that generate economic growth cannot be exploited.

In the circumstances that the economies of Africa in general and Kenya in particular experience downward trend due to some of the conditions referred to earlier, development assistance and the politics of debt serving become the order of the day. Since the aim of the AGOA is to promote trade and not aid as the US is convinced that trade and investments would sustain the economies, the study therefore utilized international trade development assistance, debt, foreign direct investment paradigms to guide the analysis. These are found to be relevant to the research area since AGOA main components deal with these issues.

The literature review explicates that the US economic policy towards Africa is defined in strategic terms only. In which case, US views Africa as a source of vital raw materials namely; oil and minerals. Trade, investment and aid are very small as compared to other continents. Those African states which process the oil and minerals critical to the US are the leading beneficiaries of US trade, investment and aid.

Chapter Four is a critical treatment of the Act. Privatisation of public enterprises, which is one of the conditions African governments are expected to be committed to implementing is analysed. Its pros and cons are considered, however it is viewed that there should be sufficient evaluation before the enterprises are sold. The provision on textile and apparel is found to suggest that the US is still protectionist, showing gradual liberalization. Most important however is the fact that the limitless duty free market is not as is purported. AGOA is as limiting as the past regimes since the prevailing preferential treatment is bilaterally negotiated but can suffer from unilateral (US) ban.

Findings on policy implications for Kenya are that it has made a considerable effort to improve its trade in textile with the US within two years of gaining eligibility. It has also realized minimal impact in investment and linkage effects brought about AGOA. However the incentive structure is far inadequate in relation to infrastructure, fiscal policies and regulatory frameworks. All have led to high costs of productions and to the uncompetitiveness of its products in the markets. A major area of concern is the state of the collapsed cotton industry which the study shows is still crippled. Kenya therefore needs to urgently develop a strategy and favourable conditions to revive the industry within the remaining two years the Act allows imports of duty free cotton yarn from AGOA beneficiary country. Otherwise reliance on imports would adversely affect her production and trade in the same commodity.

CHAPTER ONE.

1.0 INTRODUCTION

The study analyses the implication of the new foreign trade policy of the United States towards the Sub-Saharan Africa Countries. The initiative is defined in the act known as Africa's Growth and Opportunity Act (AGOA), whose general objective is "to authorize a new trade investment and development policy for Sub-Saharan Africa"[1]. The action has been taken in order to promote mutually beneficial trade and investment between the United States and Africa.

In the process of formulating the foreign relations through trade, the policy takes recognition of the social, economic and political situations of the countries of the Sub-Sahara and therefore suggests that the benefits would be realized under certain prevailing conditions. The main components that the policy include aim at the following arrangements:

- Cancellation of debt owed by the Sub-Saharan African Countries.
- Promotion of US- Africa trade.
- Enhancing Development Assistance for the respective African Countries.
- Creation of an Equity and Infrastructure Fund.
- Establishment of Overseas Private and Investment Corporation and Export-Import Bank facility.

[1] United States Congress: Africa's Growth and Opportunity Act; May, 2000.

The above measures are expected to provide the required efficient mechanism to allow the Sub-Saharan Africa economies to grow to meet the demands of the rapidly growing population. In this context, the proposal takes note of the peculiar issues of Africa in the region. It is hence emphasized that the level of poverty, debt, and unfavorable terms of trade "constitute a serious impediment to the development of stable democratic, political structures, broad-based economic growth, poverty eradication and food security"[2] .

Another issue explicitly recognized in the proposed measures is the regional approach in the alleviation of problems. In this aspect, the Act stipulates that the implementation of the initiatives will be based on the 'Lagos Plan' since it contains the priorities that originated and were designed by African countries themselves. These are self-determined policies, regarded as capable of effectively solving the problems facing Sub-Saharan countries.

The Africa's Growth and Opportunity Act therefore attempts to embrace the characteristics of the international economic system, posited by Meier as the "increase in the flows of commodities, factors of production, management technology and financial capital across national borders"[3]. This is expected to spur development in many sectors as the Sub-Saharan states could also explore the possible advantages and opportunities provided by the new structures. These would be especially in the areas of improved terms of trade to facilitate increased importation of machinery, technology and skills as a result of higher export

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[2] *Ibid.*

[3] Meier, M.D.; International Economics: The Theory of Policy, (Oxford University Press, New York, 1980), p.1.

earnings. The ultimate objective is to realize "possibilities of building up exports of manufacturers thus transferring their population from low productivity occupations'[4]

The core concept of the Act is based on the principle of increased trade through open markets with access to goods from the African countries. Significantly, it provides the region with great potential for duty free entry to US textile and apparel markets in addition to other products. It is against this background that the study will explore the issues involved and the potential for the continent, particularly for Kenya in relation to trade, investment and other social economic gains.

1.1.0 Ideological Prospective

Harbesson and Rothchild in Africa and the Post Cold –War, (1991), had an earlier sense of the unfolding circumstances. In examining the context of Africa in world politics at the turn of the1990s, they had this viewpoint:

> "The end of the cold-war is ushering in a new and a yet uncharted world order. The bipolar world is losing its hold, and the great powers no longer hold the same sway over the countries of the third world that they once did. As this process unfolds, Africa's concerns may be elevated to the level of importance out of line with its peripheral status in the current world order"[5]

[4] *Ibid*

[5] See Harbesson J. W. and Rothchild D.:*Africa in the Post Cold-War* in Africa in World Politics, (Westview Press, Boulder, 1991), pp. 1-2.

The marginalization in which the African countries are trapped are in the areas of trade, aid and investment. A rejuvenated interest to lift the continent out of the status therefore forms the background to the understanding of the issues that presently occupy efforts to redefine US African economic relations. The ideology for increased multilateralist engagement is being reconstructed as the most effective and efficient approach to global development. It is perceived that world peace and security would be realized when collective determination becomes the unified framework. In this respect, Africa is increasingly being integrated into the international political system to contribute towards the attainment of world order in which the overriding aims are to eliminate social and environmental problems common to all mankind from a mutual perspective.

It is in this aspect that President Bill Clinton's key policy address during the opening of the National Summit on Africa reinforces the foregoing position. He outlined the new U.S. thinking about Sub-Saharan Africa, emphasizing "open trade system that would benefit Africa along every other region in the world[6]. The other substantive areas that he outlined were debt relief, leadership, investment and disease control among others.

The point made by Clinton further provides credence to the fact that international cooperation guarantees better opportunities for realizing benefits of the global growth and that through it, there can be improved redistribution of resources such

[6] Bill Clinton on the Opening of the National Summit on Africa, Washington, D.C. The full text of the Speech is contained in Kenya Times, 24th February, 2000.

that the potential for vulnerability and suffering by the disadvantaged can be contained. This is a perception, which dominates the U.S. foreign policy behaviour.

The other problems that have faced the international community in the present times that Clinton, Harbesson and Rothchild appear to agree on as the new agendas to be resolved through multilaterism are human rights and building democratic institutions, reducing the spread of AIDS and other epidemics, drug trafficking, environmental control, conflicts and the refuge crises, world natural resource management to alleviate poverty and the urgent need to check terrorist activities around the world.

1.1.1 Issues of Peculiar Concern to Africa

Debt Crisis

One of the major issues that the US has always tried to resolve is Africa's debt burden. The UNCTAD report of 1999 explains that "the debt overhang continued to be a serious problem in the region and has become unsustainable in many countries. In 1988, the level was $230 billion representing 30% of the aggregate GDP"[7]. By the end of 1998, the total African debt as a percentage of the GDP has reached 65.5%." This was 303% of the exports of goods and services compared to the 1997 ratio of the 284% due to the decline in exports. For similar reasons,

[7] UNCTAD Secretariat Report, 1999, (United Nations, New York, 1999), pp. 13-14.

the debt service as a percentage of exports of goods and services rose to 30.9% from 21.3% in the previous years.

The report further observed that the obligations associated with the overhang 'pose a constraint on the growth potential of African countries, limiting their ability to address persistent structural weaknesses[8] Thus, rescheduling is usually resorted to as of necessity to avoid the collapse of the financial system'. This, however, also leads to increased lending and the subsequent painful adjustment efforts in the part of the debtors[9]. It also implies that the debtor countries credit reputation may be jeopardized as lending institutions can easily suspend any financial dealings with it. There would also be subsequent withdrawal of potential investors. The predicament is also difficult to avoid since the politics of "debt regime is such that countries cannot obtain Paris Club rescheduling without being in the good graces of the IMF and the World Bank[10]. In the circumstances the level of debt remains while the world community strives to explore its root- causes with a view to finding lasting solutions.

In view of the situation, different initiatives have been taken towards the alleviation of the problem. In 1988, the US, under James Baker launched a plan to relieve the 'highly indebted middle income' group. These included Nigeria, Cote d'Ivoire and Morocco.

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[8] *Ibid.* p14. Also see Jeffry D. Sachs *et al*: *The Case of Increased Debt Forgiveness* in The Africa Competitiveness Report, 2000/2001, (World Economic Forum, Oxford University Press, New York, 2000,) pp.46-59.
[9] *Ibid.* [10] Callargy, T.G.; *Africa and the World Economy: Caught between a Rock and a Hard Place* in Africa in World Politics; op.cit.,p.43.
[10] Callargy, T.G.; *Africa and the World Economy: Caught between a Rock and a Hard Place* in Africa in World Politics; op.cit.,p.43.

The limitation of this action was that it did not provide for the reduction in the capital outflow since the recipients had to still meet their debt commitment to the commercial banking institutions overseas. The US and the international lending bodies and borrowers recognize the great impediments in the form of constant adjustments, capital flight and general decline in growth brought about by the debt obligations. This therefore caused a new US policy focusing on the inducement of investment to the affected countries of Africa and the strengthening of domestic savings through capital retention.

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The Toronto Summit of 1999 served also as a relief initiative that targeted low-income Sub-Saharan Africa. It operated under the 'framework of compatibility principle' which allowed the creditors to choose from a wide range of options namely; "concessional rates of interests on shorter maturities, longer repayment period at commercial rates, partial write-offs of debt service obligations during the consolidated period and or a combination"[11]. Tanzania, Mali, Madagascar, Niger and Central African Republic are indicated to have benefited from this arrangement. The debt relief however would still not be the solution. The parties insist on credit worthiness and growth prospects of the debtor countries.

1.1.2 General Economic Problems of the Sub-Saharan African Countries

Sub-Saharan African countries are exporters of agricultural and traditional commodities. In the last three decades, the main productive sectors have witnessed

[11] African Development Bank; African Development Bank Report, 1989, p27.

poor performance, leading to low export earnings and the resultant decline in per capita incomes. According to the World Bank Reports of 1993 on the continent, the agricultural sector grew at an average of 2.7% per year in the 1960's. This was the same as the population growth. Between 1970 and 1985, the rate of agricultural growth was 1.4%, similar to that of the population[12] . This was half of the proceeds required to feed the expanded population. The oil production fell in volume during the same period on an average of 0.7% per year.

In the circumstances, the share of the exports internationally dropped by 2.4% in 1970 to 1.7% in1985. The World Bank report holds the view that had the fall not occurred and Africa maintained the same growth pattern as at 1970 of the non-oil market at constant prices, then its earnings would have been about US$ 10 billion a year from 1980-1987. This would have greatly reduced the debt margin. Some of the factors responsible were the drought that was experienced from, 1972-1973, and 1983-1984, low farm prices and cheap imports of foods.

There was, however an improvement towards 1995 in the productive sector. The United Nations report on World Economic and Social Survey (1996), indicates that the major crops realized substantial output at the close of 1995. These were; Cocoa 7.6%, Tea 7%, Coffee 10% and Cotton by 4%. Oil production also increased by 2% by 1995. However, this development did not change the aggregate picture since the boom was to some extent offset by the drought conditions in some

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[12] The World Bank: Report on Sub-Saharan Africa; From Crises to Sustainable Growth; A long Term Perspective Study, 1993, p18.

countries[13]. The above situation was further aggravated by the effects of the commodity prices that obtained from the Asian market instability in 1998. The UNCTAD report on Trade and Development, 1999 shows that the phenomenon had an impact on Africa. It asserts that the continent suffered an overall decrease of 16% in export value with a slight reduction in volume. The consequences of all these was therefore seen in the rapid trade deficit, hence there was a surge in the current -account deficit from US$ 4.9 billion in 1997 to US$ 16.5 billion in 1998. The failure of the governments to establish strong agricultural/industrial linkages has also been cited as a major cause of the poor performance in the sector.

There are also some aspects of policy inadequacies that have characterized the Sub-Saharan Africa. In the areas of mineral wealth, it is observed that there is little exploration in progress. The industry has also not benefited the mineral producing countries significantly. Poor investment decisions, heavy borrowing and the parallel, incompatible interests of the Mining companies that pursue private interests, unwilling to share information and skills with the nationals are the causes of the underdevelopment of the mineral industry. The energy field also indicates that the need is expanding much faster than the potential to exploit the energy resources, which are also abundant. The World Bank Report mentioned above emphasizes that priority should be on the development of sustainability and continuous supplies of resources. At present less than 4% of the hydro potential are developed.

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[13] United Nations; World Economics and Social Survey: Trends and Policies in the World Economy 1996, (United Nations, New York, 1996), p.36.

The same report also mentioned that Africa also has coal reserves equivalent to 135 billion tons and a gas volume estimated to be twenty times the current installed hydropower capacity that still remains unexploited. The inability of the continent to fully develop these resources to meet the rising demand has made it vulnerable to rapid price increases for petroleum and other energy sources. The most serious problem faced by the continent as a consequence of this scenario is the likelihood of slow economic growth.

The Sub-Saharan countries are highly indebted, experience poor terms of trade and therefore scarce foreign exchange earnings to be able to spend the limited income in the purchase of highly priced energy.

Industrialization in the continent has not progressed in the direction that would make it competitive, sustainable and beneficial. Most of the sectoral policies since independence emphasized import substitution which imposed restrictive tendencies to protect the infant industry .The practice created a situation that discouraged competition hence the industries remained removed from acquiring new technology that would enable the development of high quality goods in the market. The effect has been inefficient and expensive sector unable to take advantage of the competitive markets. In the aggregate, the barriers served as decentives to foreign capital investment which would have improved the net capital inflow, increased employment and generally, to macro- economic stabilization. Another element, which is already discussed above but should be stressed is that there has been no sufficient initiatives by the governments to promote agriculture–industry

complementarity[14]. The relationship should ensure that the agricultural incomes are high enough to enable effective demand for consumables and to provide markets for farm inputs from the industrial sector.

The external environment has to a large degree been responsible for the African trade predicaments. This is particularly in regard to the trade barrier policies of the developed countries. As Harry Johnson points out in his analysis of "Policy Obstacles to Trade", (1968), the US and the other developed economies possess various options that would be adopted to provide measures capable of influencing the export earnings of the less developed societies positively. The whole initiative would demand an examination of those impediments to trade by both the industrialized and non-industrialized economies[15].

Johnson further argues that the developed countries are obsessed with the fact of competition from fellow industrial economics and so impose general barriers on goods in which the LDCs have comparative advantage[16]. Barriers imposed range from licensing, negotiated export limitations to export subsidies. The administrative practices, other internal trade regulations, health and safety measures affecting imports are strictly enforced. The aim of the direct barriers is usually to control the competition from fellow industrialized economies.

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[14] World Bank Report, 1993, op cit., p.11.

[15] See Johnson, H.G.; *Policy Obstacles to Trade* in J.D. Therberge, ed., Economics of Trade and Development, (John Wiley & Sons, Inc., New York, 1986), pp.506-507.

[16] *Ibid.*

The indirect forms, particularly those requiring certain standards target the developing countries since they do not possess the technological skills and scientific capacity to meet the specifications which are demanded by the advanced markets.

1.1.3 Leadership Environment

The phenomena of free access and internal deregulation have also affected Africa. In 1994 World Bank Annual Report four impediments to growth in the continent were identified. These were political transition, high debt burden, deterioration in terms of trade and weak policy implementation[17]. The political transition was added to trade so as to constitute the broad definition of liberalization. However, contradictorily the bank acknowledges that by the end of 1994, there were twenty nine multiparty democracies as opposed to nine about five years but that the same transition which the multilateral donors had advocated for as preconditions to lending now served as a constraint to economic development due to difficulties in power sharing between the governments and the opposition groups[18]. The same situation was also blamed for the disruption of production and commerce as the effort to mobilize resources was hindered by the political process.

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[17] The World Bank Annual Report, 1994, (The World Bank, Washington, D.C., 1994), pp.79- 82.
[18] Johnson, H.G.; op. cit.

This position of the Bank has tended to complicate the interpretation of its policy objectives. It suggests that the institution was either inconsistent in the principles of liberalization or was shifting responsibility of the failures for its own policy prescriptions to the African countries. The Bank could only reach this conclusion because it had not succeeded in the task of persuading the respective governments to follow its own guidelines. As Thomas Callarghy notes, "the World Bank's emphasis on governance emerged from its learning about the primary importance of creating a more facilitative socio-political context for structural adjustment in Africa[19]. In this position, the political transitions which were otherwise viewed as positive indication towards maturity and development did not enhance the ideologies of the Bank which meant that democratization was not the sufficient conditions for the economic development of the African countries.

This socio-political element also referred to as governance or leadership was again strengthened by an additional perception. This regards the new found recognition that the state system has a fundamental indispensable role to play in the development of the society. The experiences drawn from the collapse of the 'command economies and the Asian economic miracles and the disintegration of societies in the former communist world and some parts of Africa as a consequence state erosion' convinced the international financial institutions that an effective state is vital to the provisions of goods and services by establishing and maintaining 'rules and institution that allow markets to flourish and people to lead healthier, happier lives[20]. The 'statist' approach hence meant that a conducive

[19] Callarghy, T.B.; op. cit., p.57.
[20] See IMF/World Bank; World Development Report, 1997: *The State in a Changing World*, (International Monetary Fund/World Bank, Washington, D.C.., 1997), pp. 19-24.

environment for economic growth and business in respect to regulations, macro-economic stability, investment into social amenities, enforcement of security, effective, efficient and impartial judicial system, transport and communications infrastructure should be developed to facilitate trade and related activities.

As we enter into the new millennium, the current and future responsibilities of the states are envisaged to focus more on 'building institutions and partnerships' as pillars of globalization, a concept and practice unfolding in the 21st century world. It suggests an enhanced interaction of actors in a manner that would enhance the potential for utilizing varied opportunities such as access to the markets and technology transfer which hold out the promise for an increased productivity and higher living standards[21].

The implication of the phenomenon in the realm of international relations entails a pronounced recognition for interdependence and therefore a quest for multilateral framework to supernational issues. This involves collective efforts in solving world problems and in the endeavor to promote social, economic advantages. Africa is therefore urged to take this time, particularly the instruments of 'international agreements' to address the critical problems. These are in the areas of trade, capital inflows and environmental challenges.

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[21] The World Bank; *Entering the 21st Century*: World Development Report, 1999/2000, (Oxford University Press, New York, 2000), pp. 2-4.

It is also suffice to mention here that to date, the countries are expected to fully utilize the World Trade Organizations (WTO) mechanism to liberalize the trade between nations. The WTO auspices commenced with the Millenium Round in November, 1999 and examined the protectionist tendencies in agricultural commodities and trade in services, being the areas in which the developing world suffer greatly in the hands of the industrialized societies as they control the markets of the products. They also restrict electronic trade due to their monopoly of the technology.

The capital inflow issue remains another substantive area of concern in the year 2000 and beyond. The foreign direct investments create the linkage benefits that generate economic growth and general development. The responses of the African countries in attracting, retaining, and nurturing these financial inflows would be the deciding factor in either the growth or peril of the African economies. Thus there is a crucial need to formulate policies that would enable the capital mobility to flourish. Finally but not least, the global environmental challenges are treated as posing persistent threat to life besides the huge resource implications being diverted to manage the crisis. The climate change, biodiversity loss, desertification

and other organic pollutants[22] are common interests that require the ultimate joint action of all countries.

1.2. RESEARCH PROBLEM

Kenya experiences the economic deficiencies that the Act observes and aims at alleviating. These conditions constrain the progress towards a stable and prosperous economy. In view of this situation, the potential for the proposed arrangements is examined in respect to how the growth and development can be promoted through debt relief, increased capital investment and liberalized trade.

The research problem would therefore analyse the extent to which the present weak economic relations between the US and Kenya can be improved within the framework of Africa's Growth and Opportunity Act. The study would thus investigate the degree to which the broad free trade and investment opportunities can be intensified to increase the capital inflow and lead to high productivity.

1.3. JUSTIFICATION FOR RESEARCH

The new foreign trade relations which was signed as part of Trade and Development Act of 2000 would affect the existing institutional and structural arrangement in the various areas of public and private sector management. This would especially concern the definition of new priorities created by the policy both in the US and in Kenya. In this respect, there is a necessity to examine the unfolding events so as to prepare to conduct external trade within a well defined policy.

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[22] *Ibid*, p.7.

The United States and Kenya enjoy political, economic and social contacts represented at full diplomatic levels. The economic relations would hence not be new. The difference would occur on the substances that are presently expressed. It would demand certain amount of reciprocity in order for the opportunities to be enjoyed by the two nation-states. This study therefore attempts to provide information relevant to public policy and to academic pursuit.

It reviews and evaluates the new US policy in terms of its relevance to the economic and social realities of Kenya as well as the implications for institutional and structural responses that would be established to allow mutual benefit to occur. It is further expected that the research findings would contribute to filling gaps on some areas and to strengthen the knowledge base that exist. The study would also serve as reference for further research in this rapidly evolving area.

1.4 OBJECTIVES OF THE STUDY

The general objective of the study is to analyze the extent to which the new US trade is likely to promote economic development in Kenya through AGOA. It specifically examined the following:

- The policy structures that should be employed to promote trade between the two states so that Kenya would reduce its present trade deficit against the US.
- Explores the environment that should be established to increase foreign direct investment into Kenya.

- Assess how Kenya's textile products would benefit from the opportunities provided by the Act through increased access to the US market.

1.5 HYPOTHESIS

The Act suggests that the economies of the Sub-Saharan states can grow rapidly into prosperity through improved market access that is facilitated by liberal incentives in the form of credits, technical assistance, suitable communication infrastructure and leadership environment. In this situation therefore, the study would be guided by the following hypothesis:

"The liberal conditions provided by Africa Growth and Opportunity Act would enhance policy reforms in Kenya that would promote trade and investment and increase capital inflows to realize sustained development."

1.6. METHODOLOGY

The study utilized both the primary and secondary data. Primary information would be collected through interviews with various policy-making officials in the government, the private sector, especially the textile manufacturing firms and the micro-enterprises.

Secondary data were also obtained partly from same sources above as well as from local trade and manufacturing organizations namely; Kenya Manufacturers Association, Kenya Textile Manufacturers Association and AGOA Association. Government publications to be were received from Ministry of Finance, Planning and National Development, Ministry of Agriculture, Ministry of Trade and

Industry, particularly from the Centre for Business Information in Kenya. Other government literature in the form of periodicals; National Development Plans, Economic Surveys, Statistical Abstracts, Printed Estimates of Expenditure and Population Census Reports were obtained from the Central Bureau of Statistics. The Cotton Board of Kenya availed The Cotton Act and other useful information.

The reports of the World Bank, African Development Bank, United Nations were also utilized together with journals and newspapers. In addition, the research also gathered information and opinion from research institutions such as The Kenya Institute of Public Policy Research (KIPPRA), Institute for Public Policy and Research (IPAR) and the US Information Service. Apart from the documented data, information was also sought through telephone and face-to-face exploratory discussion by the officials from the various organizations and other interested individuals.

The study involved field interviews, which were performed through visits to Nakuru, Athi River, Thika and Nairobi. These were the towns in which the research was able to establish in advance the firms which participated in AGOA and were also willing to receive the interviewer as is explained in the next segment on problems.

1.6.1. Problems in Collecting Data and Limitations upon the Research

There were some difficulties in the exercise. The first one involved the process of identifying the textile firms which exported to the U.S.A. This information was necessary to help in selecting the sample size from forty active establishments.

Since there was no readily available record in this respect, telephone was used to solicit exploratory information from twenty-three. This took a long time since in most situations, the authorized persons were either not specified or unavailable, thus causing delays and further telephone calls.

The responses were also relatively poor. Nine firms accepted that they were active in AGOA. Seven were reluctant to take interviews, citing various reasons ranging from not dealing in fabrics meant for the US market, manufacturing only for local market to having other traditional external markets. Four simply hanged up the phone on realizing that the researcher was not a business client. Three declined to provide related information on the basis that they were just establishing themselves and therefore required time to participate, assess and be able to fairly comment on AGOA.

In regard to the nine, which confirmed their involvement in AGOA, three were situated in APZ-Athi River, two in Nairobi, two in Nakuru and one in Thika. Out of these, one availed the company profile but did not fill the questionnaires. Three sought official communication. One firm, which is established in Thika but has a head office in Nairobi welcomed the researcher and made critical observations about perceived AGOA benefits without completing the questionnaire. The respondent instead referred the researcher to the Chairman of Kenya Textile Manufacturers Association who is based in Nakuru to obtain the sub-sectors position on the revitalization of the textile industry. He contended that the association met frequently to deliberate on common problems affecting them and adopt a collective approach and that the Chairman had the mandate to discuss over

AGOA and related issues on their behalf hence individual firm views would not assist. A trip was then made to Nakuru to follow up on this advice. The Chairman offered his time and responded to the interview on behalf of his firm as well as on behalf of the Association.

The attitude shown therefore imposed some limitations. The sample size could not be determined thus necessitating the researcher to confine the interviews to the willing firms at random. The micro firm specific details could therefore not be fully obtained as intended, making it difficult to resolve some study questions. An effort was however made to strengthen this area through secondary information.

Second, the time lag between the enactment of the bill into law in May 2000 and the qualifying of Kenya into AGOA privileges led to some uncertainties. Within the period, the policy makers and potential players could not express definite views as time was occupied with bilateral negotiations on the products that could benefit under the General System of Preferences (GSP) and the adoption of an effective visa system among other issues. It was a transition in which the interested groups were consulting on the implications of the Act and exploring strategies to take advantage of the market. In this situation, the dominant response from the government officials in the Ministries of Trade and Industry and Foreign Affairs would be put as; "the picture would be clear once the two governments completed the discussion on main issues". This slowed down the study since the policy direction and roles had not been clarified to assist in the framing of research instruments.

Third, the secondary sources, particularly imperical data concerning US-Africa economic relation in terms of development assistance, trade and investment flows to Africa suffered from the condition which Philip Ndegwa refers to in Africa's Development Crisis and Related International Issues, (1985) as " paucity of data". To adopt part of his definition of the concept in the chapter on *Profiles of Development* in Africa, there were "non-continuous data", "gaps are left in the coverage". This was the experience in an effort to comprehensively appreciate the interaction on the above spheres between the two regions. Apart from the statistics in Table 1. which shows US development assistance to major regions covering forty years, the historical data was inadequate, found in pieces. It therefore required much more time than the present study could afford to compile the various sources in order to build a coherent argument.

The USAID was approached in an attempt to fill the above gap but the researcher was referred to the US Embassy. This was followed after consultation with the contact person at the Embassy who requested for a formal communication. This was subsequently done but the response came nearly two months late with the advice that such information should be sought from the USAID and the Investment Promotion Council. See appendix 2. In the prevailing situation therefore, the weakness brought by this inconsistency would affect the accuracy of some of the views expressed in the study.

CHAPTER TWO

2.0 CONCEPTUAL FRAMEWORK

The research examines the issues in the realm of international economic relations defined in the fields of international trade, development assistance, foreign direct investment and debt. In order to conduct the study and appreciate the analysis, it is necessarily to be guided by the relevant approaches in the areas. In this regard, the work would draw from some theoretical arguments advanced by leading authorities to understand the underlying concerns.

2.1 Determinants of International Trade

Nations engage in trade on the basis of different resource endowments. This is a general point of agreement among economists on international trade. The factor proportions builds on the classical works and thrives on the assumptions that " countries are endowed with many factors but in different proportions hence the international differences in relative factor endowments in comparative costs and basis for international specialization[1]. It further states that " a country will export commodities that use intensely in their production, the country's relatively abundant factor"[2].

[1] Meier, M.D.; International Economics: The Theory of Policy, (Oxford University Press, New York, 1980). p. 29.

[2] *Ibid*

The patterns and trends of trade thus are partly explained by prevailing factor intensities and endowments. Less Developed Countries such as Kenya that are abundant in unskilled labour tend to specialize in the production of labour – intensive commodities such as textile, semi-manufacturers and land intensive agricultural products such as coffee, wheat, tea and wildlife conservation to attract overseas tourists.

The developed economies like the United States that are capital abundant tend to specialize in the manufacture of high skilled capital and scientific equipment that it sells to labour intensive markets of the third world in general and to Africa in particular.

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The factor proportion paradigm is however not sufficient to explain the international trade environment. It particularly does not account for the barriers that are encountered and which this study is also concerned with. In this relation, Heller Robert, (1973) adds a perspective to international trade and defines it as "“set of problems that arise from and in connection with the exchange of physical commodities between nations”[3]. This view is important for the study in the sense that it provides for constraints in the factor mobility across borders as a consequence of state sovereignties. It therefore suggests a situation of conflict in trade relations caused by varied internal laws and national interests. Meier puts this scenario in three points, “ trade policies confronts national publics, lead to

[3] See Heller, R.; International Trade, Theory and Practice, Second Edition (Printice-Hall, Inc:, Englewood Cliff, New Jersey, 1973). Preface and Chapter One.

vulnerability to external events and subsequently to tensions and conflicts when there are incompatibilities"[4].

2.2 Mobilization of Resources for Economic Development

According to Celso Furtado, the " theory of development in the economic science

According to Celso Furtado, the "theory of development in the economic science endeavors to explain from the economic perspective, the causes and mechanism of sustainability, growth and economic productivity"[5]. ' Growth' is conceptualized by Todaro as the steady process by which the productive capacity of the economy is increased over time to bring about rising levels in national income[6] while he also defines development as a process of improving quality of human lives as a result of economic growth[7] Hence development is a product of growth. He further identifies some partial theories namely; the Linear stages of Growth Model, Patterns of Structural Change, International Dependency and Neo-classical, Free Market approaches to development.

The Linear Stages of Economic Growth draws from Rostows conception of growth. This view emphasizes the " pre-conditions for take off to self-sustaining growth"[8]. The core postulate of the thesis rests on the necessity to mobilize domestic resources and foreign savings, which would in turn be invested to achieve economic growth. Development therefore depends on the accumulation of capital.

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[4] Meier, M.D.; International Economics: The Theory of Policy, (Oxford University Press, New York, 1980), op cit. p. 3.

[5] Furtado, C.; Development and Underdevelopment, (University of Carlifornia Press, Berkeley, 1971), p.38.

[6] See Todaro, M.P.; Economic Development for the Third World, Fourth Edition, (Longman, New York, 1989) p. 622.

[7] *Ibid.*, p. 620

[8] *Ibid.*, p.63

This process will as far as savings invested are transformed into a source of income. Furtado adds in this respect that " incentives to investment is critical to the theory of development"[9]. The Harrod- Dumer Growth Model suggests also that savings of certain proportions contribute to the replacement of ' worn out capital goods' while investment adds to the ' capital stock'. He also regards savings of between 15% and 20% of the GNP as an essential factor for a country to take off into sustainable growth and development.

The theory however, is inadequate in explaining the case of the 'poor' countries, especially with regard to capital formation, which is observed to be low in most LDCs. The other weakness of the approach is that while savings and investments are necessary, they are not sufficient t spur development. Other prerequisites such as institutional, infrastructural environment, international economic and political structures also influence the direction and intensity of growth.

The Structural Change Model therefore attempts to provide another dimension of development and focuses on the transformation of the traditional subsistence production to modern industrial and manufacturing production. It stresses the need to create labour surplus by adopting the Lewis theory of labour transfer. It is assumed that the excess population in the rural agricultural sector can be gradually released to the modern urban centres with higher productivity.

This theoretical perspective has a number of weaknesses. Firstly, it assumes that entrepreneurs would always invest in labour intensive production, which is not

[9] Furtado, C.; op.cit.p45.

always the case. The assumption of full employment in the urban areas and constant wages do not seem realistic. The theory however helps to examine some of the factors behind the enhancement of development through industrialization and modernization and is quite useful in analysis of the conditions of Sub-Saharan Africa.

The Neo-Classical school offers another view that the free market and liberalized economic regimes lead to factor growth. The present state of underdevelopment in most countries is attributed to poor resource allocation due partly to incorrect pricing policies and to excessive state intervention in the third world. In the circumstances, the liberalists argue that development should be pursued through privatization, deregulation and establishment of free-market mechanisms. Thus, the reduced role of the government would allow the 'magic of the market place' and 'invisible hand' of prices to guide economic development through 'open-markets', lowering barriers and increasing access to these markets which are treated as necessary conditions for improved trade relations. This is expected to establish a competitive environment to stimulate foreign exchange, domestic investment and technological transfer.

2.2 The Paradigms of International Assistance (Foreign Aid)

Todaro defines Foreign Aid as "all official grants and concessionary loans in currency or in kind that are broadly aimed at transferring resources from developed to less developed nations… on development and or income distributed grounds"[10].

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[10] Todaro M.P.; op. cit.

This framework is concerned with the arguments for public bilateral and multilateral development assistance in promoting development. Roger Riddel reviews the debate in Foreign Aid Reconsidered. 1987 and puts forward firstly, the moral case or 'needs based theories' for development assistance. In this school of thought, Streeten, Dower and Populorum are recognized to maintain that human beings have needs to be fulfilled in order to be human[11]. Hence the foreign aid would be an obligation, based on human feelings to the underprivileged, exemplified by poor countries. The aid would therefore reduce the expanding inequalities between the haves and the have- nots.

There exists a general agreement on the needs but that it would also be hard to satisfy all since there is no common need. Aid would therefore not be the means to the solution. The other view that subscribes to the moral assistance considers the national interest as paramount under the situations. In this aspect, the particular circumstances would demand that aid be extended to the needy societies. Thus each case should be treated on own merit.

The other pro-aid theories explore the justification on the basis of its contribution to development. The basic point of contention is that foreign assistance constitutes additional resources that are important for accelerating development[12]. To them, the laizze-faire assumptions are inadequate to prescribe for the economic stability. An intervention such as the Marshall Plan could find " universal applicability in the third world". Furthermore, the Rostows stages of economic growth supports the

[11] Riddell, R.C.; Foreign Aid Reconsidered, (Odi, James Currey, 1987),p. 18.
[12] *Ibid*, p. 85.

aid theory since take-off would require sufficient domestic and foreign capital for a self-sustaining growth.

The Harrod-Dumar paradigm is also applicable in this context as it postulates that the foreign capital would augment the domestic savings of the LDCs and thereby raise their level of investment. Riddel thus constructs the model for aid in what he refers to as ' chain of positive influence' as shown:

Aid ⟶ increase in domestic investible resources ⟶ in domestic investment ⟶ more rapid rate of economic growth[13].

The paradigms is therefore relevant in explaining grounds for the US aid to Africa since the sub-Saharan countries are poor due to many economic factors. Their needs are also varied and continue to rise in a great proportion. Besides these countries experience drought, poverty, natural disasters, together with inadequate economic performance in the areas of trade, agriculture and industry. The result is the dwindling foreign exchange earnings compared to the demands that have to be satisfied. Development assistance would therefore augment the state resources towards savings to meet the obligations

2.4. Theory of Foreign Direct Investment

Robert Aliber (1971) refers to the concept as " international transfer of separate but complimentary factors inputs viz.; equity capital, knowledge, entrepreneurship and sometimes goods and services as well. He elaborates that there is no trade activity

[13] *Ibid.*, p.103.

involved but simply a movement of the factors from one part to the other"[14]. This is a contribution to the discussion on the role of the multinational enterprises and promotes Hymer Kindleberger traditional theory of foreign investment, which asserts that firms with monopolistic advantages expand into foreign markets to exploit their advantages abroad[15].

The foreign direct investment is thus viewed to be the activity of the multinational corporations which has some advantages to the recipient countries. The focus is also on the resource transfer. The arguments here are derived from the neo-classical contention that economic growth would be attained only thorough sufficient savings and investment. The direct investment would provide the domestic economies with the resources to fill the gap or deficit in local supplies.

As for the less developed countries in general and Africa in particular, the transferred capital would improve on the foreign exchange reserves, government revenue, management skills and the desired level of these resources necessary to achieve growth and development targets. The sub-Saharan countries and particularly Kenya are in the stage of economic stagnation attributed partly to weak capital investment. The new US economic relations towards the continent acknowledges this failure and therefore recommends strongly that priority should be directed against the encouragement of foreign investment. This would not only with the required resources but to also create linkage effects and benefits to the domestic economies.

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[14] Aliber. R.Z;. *The Multinational Enterprises in a Multiple Currency World* in Dunning, J.H. ed., Multinational Enterprises, (Johan Allan and Union, Ltd., London, 1971) p. 49.
[15] *Ibid.*

2.5 Theories of the Debt Burden

The study is also concerned about the growing debt crisis of the sub-Saharan countries. It is therefore important to explore some views regarding the phenomenon. In this analysis, the prevailing position is that foreign borrowing can be highly beneficial. It is part of the postulates of the paradigms that urge for the filling of the domestic capital gap to enable adequate rate of investment to occur for the benefit of economic growth.

The proposition held therefore is that developing countries are low-income economies, which leads to less savings and therefore insufficient capital accumulation for reinvestment. In order for the vicious circle to be broken, an injection of foreign capital would greatly enhance the propensity to save. In the current task therefore, the theory is relevant in the grounds that African countries and Kenya in particular are highly indebted. It is within the framework offered that an empirical investigation would be drawn to evaluate the extent to which the debt burden would be conveniently managed.

The crisis is also explained from other perspectives. Jeffrey Sachs while examining the 'international policy coordination on the debt issue' in 1990 attributed the problem to global factors, mainly caused by the OPEC shock of 1973. The effects witnessed the participation of commercial banks in the lending activity at high interest rates[16]. This agrees with Todaro's observation that between 1970 and

[16] Sach, J.D.; *International Policy Coordination: The Case of the Developing Countries Debt Crisis* in Feldstein, M., Ed:, International Economic Cooperation, Proceedings of the National Bureau Research, (S.G. Wasami, New Delhi, 1990), p.237.

1980s, the commercial banks played a large role in international lending by recycling surplus OPEC 'petrodollars' and issuing general-purpose loans to LDCs to provide balance of payment support and expansion of export sectors[17]. The market rate of interests became the current costs of the borrowing to the LDCs.

Another point given by Sachs for the rising debt is found on the failure of diplomacy. In this aspect, it is conceived that the LDCs are not equal partners with the lending institutions in terms of designing the 'recovery plan', as was the case with the Marshall Plan. This position is essential to the study since concern has been raised that the donors prescribe the lending conditions without regard to the real local situations of the recipient countries. The presentation however agrees to a large degree with the argument for debt in as far as it supplements the domestic resources. However, it has reached a crisis level in which the servicing has become the greatest problem to the African countries in the sense that it has contributed significantly to the draining of local resources towards the amortation resulting in severe constraints to national development.

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[17] Todaro M.P.; op. cit, p.411.

CHAPTER THREE

3.0 LITERATURE REVIEW

The literature on the US-Africa relations may be traced back to time immemorial or as far as the first US contact with the continent can be identified. In the study, however, the review is based on the opinions that are expressed over the US attitude towards Africa after the Second World War. This is significant for two reasons. Firstly the Cold War dilemma compelled the US to consider defining the policy on Africa in view of the communist threat. A policy statement by George McGhee, then Assistant Secretary of State for Near East and African Affairs affirms the point.

> Advantage must be taken of this period of grace to further this development within Africa of healthy political, economic and social institutions to create an understanding in the part of Africans of the forces of communism which are disturbing the peace and security of hundreds of millions of people elsewhere in the world, and to inspire determination to resist these forces.

He however insisted that:

> .....we are not in a position to exercise direct responsibility with respect to Africa. We have no desire to assume the responsibilities borne by other powers, and our principles, our existing commitments, and our lack of experience all militate against our assumption of such obligations[1].

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[1] It is presented that the US had no defined policy towards Africa though it had traditional 'hands off' policy and contacts dating back to the time of slavery and before. The US somehow felt concerned and conscious of this inhumanity and to its own records in terms of racial discrimination. This caused a dilemma on whether to support African nationalism yet internally it was unable to settle the human rights question which should have provided it with the moral mandate to fight colonisation in Africa. For details see the *National Summit on Africa, Historical Framework Paper*. Available http:/www.africasummit.org/themes/historic/historic.htm.

The substance of the argument reflected the belief that Africa was only important to the US as a sphere for communist containment so it could support the continents decolonization on that ground only since it had other priorities which made Africa secondary.

The second element which make the period significant is the fact that African nationalism developed and intensified, immediately after the war culminating into the majority attaining self-rule in the early 1960s partly through the pressure of the US in its concept of 'free world'. This has therefore necessitated an assessment of the US commitment to the post colonial Africa against its value for human rights.

It is therefore upon the background of the fusion of the dominant Cold War politics with the decolonization of Africa that most of the literature on the US-Africa economic relations seem to base the analysis. In this respect, most of the views revolve on the themes of politico-strategic notion in the patterns of interaction and on the protectionist trade policy structures of the US towards Africa. This situation is aggravated by the fact that what existed in regard to Africa was the traditional 'hands off' policy and statements of intention about how to relate to the continent, borne from exploratory and fact-finding missions[2] by officials other than on concrete policy decisions.

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[2] As observed, the immediate post war epoch found the US without a blue print for Africa. In the situation therefore the succeeding regimes made vigorious efforts by commissioning studies and fact-finding trips to the continent to obtain impression of Africa's sentiments that could enable it design policies. The statements of George McGhee, Henry A.Byoade, An Assistant Secretary in charge of Near East, South Asian and African Affairs, the Clay Report and Vice-President, Richard Nixon's visit to Africa in 1957 were events that occurred during President Eisenhower and portrayed a search for Africa's place in the US foreign policy. See *National Summit on Africa, Historical Framework Paper, Ibid.*

3.1 U.S ATTITUDE TOWARDS SUSTAINABLE/ECONOMIC DEVELOPMENT, TRADE AND INVESTMENT[3].

3.1.1 Development Assistance.

The Clay Report to President Eisenhower on the US aid policy to Africa declared that:

> "... Since African states were not part of the ' frontier of freedom', they should receive minimal or no aid.... realistically, the optimum African contribution to strengthening the security of the US and the free world was so insignificant that they should look essentially to their former colonial masters for help in development"[4].

The perception that Africa did not matter in the US global security map made it to be relegated to the periphery in development assistance. Indeed Clay " concluded that the limited grant programmes in Africa should be reduced and the new ones be discouraged." This position which agrees with that of McGhee seemed to prevail as the official decision by evidence. It thus prompts Ali Mazrui, (1977) to conclude that there would be no Marshall Plan for Africa because of the absence of ideological crusade[5]. He draws this impression from the comparative aid disbursement to Africa and Asia, between 1948 and 1964 in which the entire USAID allocation to sub-Saharan countries totaled US$ 1,533,000,000 against Korea, US$ 22,384,600,000 and to Vietnam's US$ 1,868,400,000 over the same period[6].

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[3] *Ibid.*

[4] President Eisenhower appointed what should be regarded as the first serious committee under General Clay to study and recommend on the US aid policy as part of the review of the overall US policy towards Africa. It is suggested that he, (Eisenhower) had Cold-war issues in mind. *Ibid.*

[5] Mazrui, Ali; Africas International Relations: The Diplomacy of Dependency and Change (Heineman, London, 1977),p.158.

[6] *Ibid.*

A similar argument is held by Olewe-Nyunya (1995) in his discussion of the US-Africa Cold War experience. He reviews the first decade of independence (1960-70) of the relations between the two areas and refers to it as 'policy of neglect' towards Africa since the aid dropped from US$ 281 million in 1962 to US$ 219 million in 1964[7]. This placed African hopes in jeopardy as the US did not support them in development in the same manner that it exerted pressure on the colonialists to grant independence. Olewe-Nyunya therefore asserts that contrary to the African expectation, the US was only preoccupied with the communist expansion in the continent leading the sub-Saharan countries into misguided optimism[8].

This theme of peripheralization of Africa is also elaborated from a comparative perspective by Doug Bandow, (1992) in his analysis of the global recipients of the US foreign aid based on the figures shown in table 1[9]. In the period of forty years, the bulk of assistance was directed to Asia (38.3&%) followed by Europe (35.4%), Middle East (15.4%), Latin America (7.4%) and lastly Africa with 3.3%[10].

The evidence reinforces the view of Mazrui and Olewe-Nyunya as well as emphasizing the beliefs of US foreign policy elites discussed earlier which perceived Africa to be of no strategic importance and should belong to the former colonial powers. The pattern of disbursement may therefore lead to what Bandow

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[7] Olewe Nyunya, J.D.; *Understanding US-Africa Relations During the Cold War Era* in Macharia, et al; The United States and Africa: From Independence to the End of Cold War, (East Africa Educational Publishers, Nairobi, 1995). pp. 182-183.

[8] *Ibid.*

[9] Doug Bandow *Economic and Military Aid* in Schraeder, P.T., Ed:, Intervention into the 1990s : US Foreign Policy in the Third World, Second Edition (Lynne Rienner Publishers, Boulder and London, 1992), table 5.2, p.79.

[10] The percentages are computed from the receipts of the respective regions against the total disbursement shown in the table 1, *Ibid.*

suggests that "the beneficiaries of the US aid development assistance and security changed as the US strategic interests evolved"[11]. He attributes European share to

[11] Ibid, p.77.

TABLE 1.0

Economic and Military Aid

U.S. Foreign Aid by Major Region, 1946-1986[a]
(2-year averages, in billions of constant 1987 dollars)

Year	Europe	Asia	Middle East	Africa	Latin America	Totals
1946	13.217	2.239	.129	.049	.203	15.837
1947	30.744	6.677	.134	.009	.159	37.723
1948	11.101	4.023	.007	.003	.212	15.346
1949	33.338	6.646		.001	.131	40.116
1950	25.566	3.468	.059	.001	.141	29.235
1951	28.506	5.485	.137	.004	.083	34.215
1952	25.309	4.621	.683	.011	.344	30.968
1953	14.688	5.348	.700	.119	.603	21.458
1954	9.977	8.764	1.006	.144	.309	20.200
1955	6.074	9.185	1.141	.043	.527	16.970
1956	6.499	10.680	.971	.052	1.096	19.298
1957	4.695	10.828	1.394	.107	1.352	18.376
1958	5.105	6.751	2.050	.067	.857	14.830
1959	5.611	8.762	1.804	.299	.901	17.377
1960	5.025	10.430	1.959	.173	.878	18.465
1961	4.817	8.582	2.496	.850	2.010	18.755
1962	3.690	10.798	2.487	1.240	3.753	21.968
1963	3.764	9.722	2.442	1.013	3.559	20.500
1964	2.256	8.351	1.559	.872	3.999	17.037
1965	2.146	8.873	1.675	.784	3.273	16.551
1966	2.319	12.261	2.076	.962	3.540	21.158
1967	1.635	10.623	1.754	.974	2.559	17.545
1968	1.205	13.155	1.360	.679	2.727	19.126
1969	1.271	12.815	1.194	.801	1.494	17.575
1970	1.127	12.240	.549	.623	1.843	16.382
1971	1.180	14.052	2.359	.702	1.502	19.795
1972	1.392	16.508	1.832	.620	1.504	21.856
1973	1.088	15.589	1.681	.572	1.305	20.235
1974	.707	7.412	6.366	.689	1.125	16.299
1975	.531	5.768	2.992	.716	1.224	11.231
1976	.522	2.906	5.903	.552	1.089	10.972
1976[b]	.551	.834	1.912	.194	.262	3.753
1977	1.122	2.299	5.711	.754	.717	10.603
1978	1.532	2.326	5.527	.974	.780	11.139
1979	1.069	1.954	12.281	.883	.744	16.931
1980	1.160	1.723	4.694	1.167	.739	9.483
1981	1.177	1.627	5.353	1.180	.868	10.205
1982	1.599	1.590	5.523	1.286	1.195	11.193
1983	1.816	1.939	6.275	1.196	1.533	12.759
1984	2.192	2.076	6.301	1.355	1.755	13.679
1985	2.170	2.100	6.903	1.670	2.300	15.143
1986	1.853	1.840	6.831	1.119	1.714	13.347
Totals	**271.352**	**293.689**	**118.228**	**25.527**	**56.928**	**765.724**

Source: Reproduced from Doug Bandow; *Economic and Military Aid* in Schraeder, P.T.; Ed., Intervention into the 1990s: US Foreign Policy in the Third World, Second Edition, (Lynne Rienner Publishers, Boulder and London, 1992), table 5.2 p79.

the communist threat between 1949 and 195. The Latin America and Asia also faced similar situation while the Middle East aimed at stabilizing the region from conflicts arising from the Middle East question.

Immanuel Wallerstein, (1975) also analyses the strategic concept as it applied to Africa's relation with the US. In the discussion of the historical basis of US policy in Africa between 1947 and 1967, Wallerstein identified four categories of relation upon which aid was considered[12]. The first group are states, which received over US$ 100 million. These are Liberia, Libya and Morocco. He points out that Liberia was a semi-colony to the US and hosted its significant investment while the other two were home to US military facilities at the time. The second comprised of Algeria, Guinea, Tunisia and Zaire. The assistance to them fluctuated over the years depending on their relations with France[13]. The closer their relations with France the greater US assistance to them. This suggests that aid was used as a tool for buying influence by the powers.

The third segment was composed of Egypt, Somalia and Sudan, representing Muslim societies that were neutral in foreign policy but received from both the US and the then USSR[14]. Ethiopia also benefited under this category due to American military interest in it and because it could not rely on European allies to oversee the political and economic 'needs' of the regimes in power[15]. The fourth group

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[12] Walterstein, I.; *Africa, The United States and the World Economy: The Historical Basis of American Policy* in Arkhurst, F.S., Ed., US Policy Toward Africa, (Praeger Publishers, New York, 1975), P.11.
[13] *Ibid. p. 22.*
[14] *Ibid.*
[15] *Ibid.*

covered Ghana, Nigeria, Sierra Leone, Gabon and Zambia. The link was necessitated by historical black diaspora influence and mineral wealth[16].

3.1.2 US-Africa Trade and Investment Links.

The US regards trade to supplement aid and private investment[17]. This implies that there will be less aid in an environment that is conducive to trade through the elimination of barriers and distortions, hence the philosophy of 'trade and not aid' was evolved.

Trade with Africa is built on the strong understanding that the continent is potential market for US goods and a major source of its energy and mineral requirements. The Nixon Report, 1973 emphasised that; " as the West seeks new alternative sources of energy, African development becomes increasingly important[18]. Two decades later, similar sentiments are expressed by Bill Clinton in his economic policy address to Africa when he stressed that ' because we want to broaden global growth and expand markets for our own security, we must be involved in Africa'[19]. The two regimes as much as were separated in time context, defined trade with Africa in terms of strategic interests only. It therefore supports the position if Ojo Orwa and Utete, (1988) on Africa's relations with the superpowers in which they

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[16] *Ibid*, p.25..

[17] Baldwin, D.A.; Foreign Aid and American Foreign Policy: A Documentary Analysis (Fredrick A. Praeger Publishers, New York, 1966), p.45.

[18] See Stebbins, P.R. and Adam, E.P. citing Nixon's Second Annual Report to the Congress, 1973 on the discussion of The United States and Africa in American Foreign Relations, 1971: A Documentary Record, (New York University Press, New York, 1976), p.154.

[19] Clinton B. on the address to Africa during the opening of the National Summit on Africa, Washington, D.C. February, 2000. op cit. President Clinton used the occasion to expound the new US Foreign Economic Policy towards Africa in the context of Africa's Growth and Opportunity Act which is the subject of this study. See also chapter one.

hold that trade is conducted more with the states that produced strategic minerals and oil such as Zaire, South Africa, Gabon, Algeria and Nigeria[20].

Tables 2a and 2b shows US-Africa trade statistics as availed by the Department of Commerce and discussed in US-Africa trade profile 2002. The strategic notion is clearly strengthened by the data. The oil and mineral countries were the leading US trade partners, accounting for about 60% in 2001. Trade with Kenya took 8.3% in the same year. This was however concentrated on aircraft imports, hence the forth position that Kenya occupied may not be sustained.

[20] See Ojo, O., Orwa, D.K. and Utete, C.M.B.; African International Relations. (Longmans, London, 1988), pp 102-103.

Table 2a
U.S TRADE WITH SUB-SAHARAN AFRICA
U.S. EXPORTS
{$ MILLIONS F.A.S}

COUNTRY	**1999**	**2000**	**2001**
ANGOLA	252.2	226.00	276.0
BENIN	31.3	26.4	32.3
BOTSWANA	33.4	31.5	43.2
BURKINA FASO	10.9	15.8	4.4
BURUNDI	2.6	1.7	5.3
CAMERON	37.0	59.2	184.2
CENTRAL AFR.REPUB	3.7	1.8	3.8
CHAD	2.7	10.8	137.0
COMOROS	.2	.7	1.4
CONGO/BRAZZAVILLE	47.0	82.1	90.3
CONGO/KINSHASA	21.1	10.0	18.7
COTE D'IVOIRE	104.0	94.9	96.6
DJIBOUTI	26.7	16.8	18.6
EQUAT.GUINEA	221.1	94.9	80.4
ERITREA	3.9	16.6	21.7
ETHIOPIA	164.7	165.2	61.2
GABON	45.4	63.4	74.3
GAMBIA	9.6	9.1	8.4
GHANA	235.1	190.8	199.8
GUINEA	54.6	67.4	78.3
WESTERN AFRICA, NEC*	8.8	8.5	19.5
KENYA	189.1	238.0	577.4
LESOTHO	.7	.9	.8
LIBERIA	44.7	43.2	36.8
MADAGASCAR	106.1	15.5	21.0
MALAWI	7.4	13.7	14.8
MALI	29.8	32.0	32.7
MAURITANIA	25.2	16.2	25.4
MAURITIUS	39.0	24.3	29.0
MOZAMBIQUE	33.9	58.0	28.4
NAMIBIA	195.6	80.2	255.6
NIGER	18.5	36.2	64.0
NIGERIA	628.3	718.5	957.2
RWANDA	47.5	19.1	17.4
SENEGAL	63.4	81.8	85.0
SEYCHELLES	7.6	7.2	176.2
SIERRA LEONE	13.2	18.7	27.9
SOMALIA	2.8	4.9	6.6
SOUTH AFRICA	2,582.3	3,084.7	2,961.8
SUDAN	8.8	16.9	17.4
SWAZILAND	9.4	67.1	11.9
TANZANIA	68.4	44.9	64.1
TOGO	25.7	10.6	16.3
UGANDA	25.0	27.4	32.5
ZAMBIA	19.9	19.1	15.9
ZIMBABWE	60.0	53.3	31.4
TOTAL	**5,568.5**	**5,925.8**	**6,963.0**

Source: US- Africa Trade Profile. Available http/ www.agoa.gov

TABLE 2b

U.S. IMPORTS FROM SUB-SAHARAN AFRICA
{$ MILLIONS CUSTOMS VALUE}

COUNTRY	1999	2000	2001
ANGOLA	2,424.8	3,557.0	3,099.6
BENIN	17.8	2.4	1.3
BOTSWANA	16.9	40.9	20.7
BURKINA FASO	2.8	2.5	5.0
BURUNDI	6.1	8.0	2.8
CAMERON	76.8	155.1	101.9
CENTRAL AFR.REPUB	2.9	3.0	2.4
CHAD	6.9	4.8	5.7
COMOROS	1.7	3.5	10.6
CONGO/BRAZZAVILLE	414.7	509.7	491.0
CONGO/KINSHASA	229.2	212.2	153.6
COTE D'IVOIRE	347.2	383.9	333.1
DJIBOUTI	.1	.4	
EQUAT.GUNEA	43.3	154.7	445.4
ERITREA	.5	.2	.1
ETHIOPIA	30.2	28.7	29.1
GABON	1,519.5	2,208.9	1,655.2
GAMBIA	.2	.4	.5
GHANA	208.6	204.5	186.9
GUINEA	116.9	88.4	87.8
WESTERN AFRICA, NEC*	2.9	5.2	1.8
KENYA	106.4	109.5	128.7
LESOTHO	110.8	140.3	215.3
LIBERIA	30.3	45.4	42.6
MADAGASCAR	80.2	157.8	271.7
MALAWI	72.5	55.4	78.0
MALI	8.9	9.7	6.2
MAURITANIA	.8	.4	.3
MAURITIUS	258.9	286.1	277.9
MOZAMBIQUE	10.3	24.4	7.1
NAMIBIA	29.7	42.3	37.3
NIGER	12.1	7.0	4.6
NIGERIA	4,361.1	10,548.5	8,786.3
RWANDA	3.7	5.1	7.2
SENEGAL	9.2	4.2	103.6
SEYCHELLES	5.2	8.1	23.7
SIERRA LEONE	10.3	3.8	4.6
SOMALIA	.2	.4	.3
SOUTH AFRICA	3,195.1	4,204.2	4,428.3
SUDAN	.1	1.8	3.4
SWAZILAND	37.9	52.6	64.9
TANZANIA	35.4	33.7	27.8
TOGO	3.2	6.0	12.6
UGANDA	20.3	29.1	17.7
ZAMBIA	37.7	17.7	15.6
ZIMBABWE	132.8	112.4	90.5
TOTAL	**14,042.9**	**23,480.4**	**21,291.5**

Source: US- Africa trade profile. Available http/ www.agoa.gov

The second school of thought which looks at the US-Africa economic relations from the weak domestic policy structures which promote protectionist tendencies. Ikiara, (1995) points out that the restrictive practices in the forms of tariff barriers which are imposed on the products that the African countries enjoy comparative advantage and constitute about 1/3 one third of the exports suffer from the US regulatory measures[21]. He argues further that there are no indications that African countries have defined trade policies towards the US. Also, the general capital, technological, entrepreneurial and information deficiencies have tended to aggravate the already peripheral condition of sub-Saharan countries[22].

A dimension of the apparent restrictiveness of the US market is discussed by Allan Wolff, (1992). In his examination of the 'determinants of the US trade policy, 1992;' he takes issue with the nature of the political system. He argues that the federalist constitution decentralized powers to the states and only allow the federal government to possess authority of 'protecting the public from the conduct or excesses of private behavior'[23]. This observation suggests the difficulty in reaching a compromise to develop a national economic policy with other nations since the respective federal state would always resist the initiatives that strive to extend external trade privileges which would put them at the risk of competition and loss of certain monopolies.

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[21] Ikiara, G.; *US-Africa Trade* in Macharia Munene, et al, United States and Africa: From Independence to the End of the Cold War. op cit. p.206.
[22] *Ibid*, p.208.
[23] Wolff. A.W.; *The Failures of the American Trade Policy* in Hewell,, T.R., et al; Conflict Among Nations: The Trade Policies in the 1990's (Westview Press, Boulder, 1992), pp.471-481.

Wolff also argues that the bureaucratic politics, associated with the usual struggles about positions caused by belief systems features the legislature on the one hand and the executive on the other hand. The suspicion between the two institutions and the congress, representing the state constituencies " leads to protectionists horsetrading of rules" and to the evolution of a rigid and legalistic framework for considering which trade actions to be taken[24]. An example is the Africa's Growth and Opportunity Act which took the Congress and the Executive to agree upon. Thus, the constitutional position of the Congress on the area of Commerce means that the institution influences the US trade policy greatly, hence, the checks and balances between it and the executive would manifest sometimes in the delays and disapproval's.

The United States is accused of employing many rules, governed by diverse federal and state laws as relative to many other countries, making it too 'legalistic'. Wolff refers to the US trade policy as 'a system that puts on trial the activities of foreign countries[25]. In the present pervasive condition in which the US finds itself with respect to many prohibitive laws, there is therefore a need for the US to explore an exit route.

The solution would primarily focus on desire to open its markets. To achieve this, the US has tended to argue that trade should be conducted through a multilateral framework, especially the (WTO) and regional preferential trading blocks such as NAFTA to assist the US in reforming its internal policies that are found by the

[24] *Ibid.*
[25] *Ibid.*

trade partners as inconsistent with the competitive norms. As Wolff further suggests, ' the other major countries of the world economy, together increasingly with the developing countries of the world economy, determined to curb what they see as " unilateralism" in its trade policy and to challenge aggressively US trade actions[26].

The US is conceivably aware of this opportunity hence is vigorously leading the WTO negotiations and strongly recommending that states adopt the regimes requirements. The diplomatic initiative to bring China into the organization is an example of the recognition for multilateral trade. The US is currently threatened by the international competition, both internally and externally, hence believes that the free trade by all and much more so, by itself would promote stable economic growth and welfare. Charles Barshefsy, the US Trade Representative acknowledged that opening of foreign markets would eliminate the risks faced by US farmers as a result of gluts that drive down prices, workers will find new opportunities for higher-wage employment and American business will gain the economies of scale that enables them to invest in plants, research and hiring[27]. Similarly, the imports to the US were justified on the basis of creating choice, price and competition that raise family living standards[28].

3.1.3 US Foreign Direct Investment in Africa.

The investment policy is also viewed by the US from the proposition that it complements aid in reaching the goals of development and that aid will not be

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[26] Wolff, A.W.; *The Changing Trade Policy Environment and the United States* in Hewell , T.T. et al; Conflict Among Nations: The Trade Policies in the 1990s p.600. *Ibid.*
[27] Arora, V; *US Trade Policy Agenda in 2000 is to Expand WTO* in Kenya Times. March 14th 2000, p18.
[28] *Ibid*

required if appropriate conditions exist to attract private foreign investment.[29] Thus , it is encouraged as a means of availing resources to promote the necessary aspects of human development in the less developed countries. In the circumstances therefore the US has tried to create an environment that is conducive to investment through friendship, equity and in building access to opportunities and in maintaining peace[30]. These are dominant themes in the Africa's Growth and Opportunity Act.

Gordon Bertolin, (1978) provides a comparison world wide between the years 1950 and 1976. In this period he shows that the U.S investment in Africa was US$4.5 billion, representing 35 of all overseas FDI. Europe accounted for 41%, Canada 25% and Latin America 17%. In respect to Africa, the largest share was enjoyed by South Africa US$ 1.66 billion, taking 37%, Nigeria, Libya and Liberia 8% each, Kenya US$150 million, Zaire US$ 250 million and Gabon US$ 170 million[31]. These were so far, the largest recipients of US investment in the continent.

The discussion by Eleonara West and Robert West, (1975) on the subject, indicates that at the end of 1972, the Book Value of US direct investment abroad was US $94.031 million. But of this, "other Africa" , meaning Liberia, Libya and others consumed US$3,086 million. The greatest share went to petroleum countries at US$2,254 million followed by mining and smelting US$425 million, other

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[29] Baldwin, D.A.; op. cit. p.153.
[30] Stebbins, R.P. and Elaine, P.A. Eds. American Foreign Relations; A Documentary Record, op. cit. p.364.
[31] See Bertolin, G., *US Economic Interests in Africa: Investments Trade and Raw Materials* in Whitaker, J.D. Ed., Africa and the United States: Vital Interests. (New York University Press, New York, 1978), pp 23-24.

industrial and manufacturing sector received an investment of US4124 million. In this connection, both Libya and Nigeria represented two thirds of the US FDI in Africa[32]. Stebbins and Elaine in their analysis referred to above are also close to this position. They acknowledge that the two countries hosted about 73% of the investment followed by mining countries with 13% and manufacturing holding 3%.

This position has not changed to date. According to US Department of Commerce review contained in US-Africa Trade Profile, 2002, South Africa, Angola and Nigeria had a combined 58% of the US investment in Africa in the year 2000. The same source reveal that the two countries; South Africa and Nigeria host US$22.3 billion out of US$42.6 billion asset value of US affiliated companies.

The slow growth has also been partly attributed to by African political ideologies that favored African ownership after independence. The examples are Tanzanian nationalization under Ujamaa Socialism, the Kenyanization and Africanization programmes and the transfer of equity from the US petroleum firm to Nigerian government that resulted in cumulative reduction from 1973 for US 200 million in foreign investment[33]. Similar government's actions in Zambia, Zaire, Ghana, Uganda and Libya served to increase the foreign investors fear on the future stability of their business. Further, the compensations were inadequate compared to the loss of expanded profit overtime[34]. Consequently the inducement to invest with

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[32] West, E. and West, R.; *Conflicting Economics Interest of Africa and the United States* in Arkhurst, F.S.; Ed; US Policy Toward Africa op.cit pp.168-176, particularly table A. 10.
[33] Bertolin, G.; op.cit; p. 24.
[34] *Ibid.*

the long-term goal to understand market operations and to be eventually established was seriously jeopardized.

Apart from the ownership issue other political risks curtailed capital inflows. The civil wars, revolutions, coups and other forms of social unrest added to the perception of insecurity. In the end, a declining investment in the continent has been realized. The way forward for Africa therefore is to re-examine its entire public policy spectrum to be able to adjust to the present competition necessitated by international liberalization. The incentives should form the priority since investment flows are influenced by the nations market and growth rate of the economy[35].

It is therefore observed that the US investment in Africa is small. The concentration is on the energy and mineral producers from which it depends heavily for industrial and domestic purposes. This fact suggests that the theory that investment creates additional capital to spur development cannot be generalized. It is shown to be applied by America to specific areas in which capital will facilitate and support conditions that can guarantee the continuity of supplies and stability of prices of the raw materials it considers as strategic.

In conclusion, it leads to the proposition that aid follows trade which also follows the direction of investment. Diagrammatically this is presented as aid ⟶ trade investment. It therefore promotes the thesis that the economic interaction between the US and Africa is intense in the areas in which the strategic interest is a

[35] United Nations, UN Centre for Transnational Corporations, (Series A. No 17, UN, New York, 1991) p.29.

preoccupation. The mineral producers are the leader s in trade, investment and also as recipients of the development assistance.

It is therefore hard for the rest of the continent that are not energy and mineral producers to claim large proportion in the US –Africa trade, given the fact that already reciprocal structures are not in their favour. The emergent competition worldwide due to globalization further put Africa in a difficult condition, considering the obsolete un-diversified and uncooperative nature of its industry and agriculture. It is therefore the role of African governments to address the scenario by developing appropriate policies that can improve the present situation. This if one of the reasons why AGOA would be relevant to Kenya's present economic performance.

UNIVERSITY OF NAIROBI
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CHAPTER FOUR

4.0 A CRITIQUE TO AFRICAS GROWTH AND OPPORTUNITY ACT

The last chapter has provided the general policy setting of AGOA and the mechanism that are required to be met towards realizing its benefits. In this chapter the focus is on the assessment of the applicability of the policy. The conceptual understanding of privatization, the preferential treatment regarding the textile and apparel economic development related issues will be examined.

4.1 PRIVATIZATION, FOREIGN RESOURCES AND ECONOMIC GROWTH

The broad objective of AGOA is to obtain sustainable economic growth and development in Africa. This should be achieved through a liberalized market economy. The free market, removal of both tariffs and non-tariff barriers to trade and investment are emphasized. Above all, the Act suggests that the African governments should relinquish ownership of economic assets. This action will enhance the US belief that strong private sector will easily attract foreign resources from abroad that can stimulate economic growth.

The point of contention therefore emanates from the meaning of privatization. AGOA does not specify the policy actions needed to be adopted for efficient allocation of resources through privatization. It only refers .to it as one of the conditions for qualifications to the benefits. It thus leads one to think that the US intends to see a considerable reduction of government investments in commercial, manufacturing, agricultural, financial and service sectors. Anyang' Nyongo

examines the concept of privatization by referring to various definitions. One is the view of Hemming and Monsoor, which conceives of it as the transfer of public sector assets and activities to the private sector. Two, is Shirley's observation, which incorporate parts of Hemmings point, but adds that such transfer is accompanied by radical reallocation of available resources[1]. Rose Ngugi while discussing Privatization, Methods and Procedures derives a definition from Etukado, (1997) as obtained from the Second Nigerian Economic Summit, 1995 to the effect that privatization policies are aimed at transferring full or partial ownership and control of public enterprises to the private sector to encourage competition and to emphasize the role of market forces in place of statutory restrictions and monopoly power[2]. The underpinning view is the change in ownership, suggested by Ngugi as a process and the goal as an open economy.

The immediate difficulty with the requirement to reduce governmental share in state assets is the question of the relevance of ideology and of the objectives of the purpose. The public corporations were established to meet the various developmental goals and national interests. Garrishon Ikiara points out some of the expressed justifications for the existence of the public enterprises as held by Shirley that they were taken as means of correcting market failures. As from Killick, Short and Nunnenkamp, the enterprises were created to serve as sources of revenue and employment as well as to act as instruments for balanced regional development. This purpose was to be achieved through deliberate distribution of

[1] See Anyang' Nyong'o, Privatization: Conceptual Issues in The Context of Privatization in Kenya, (Africa Academy of Sciences, 2000, Nairobi), p. 3.
[2] Ngugi, W. R.; Techniques, Methods and Procedures of Privatization in Anyang' Nyongo, Ed., The Context of Privatization in Kenya, Ibid., p.3.

industries and provision of public services[3]. The assumption supporting this rationale was that the enterprises were regarded as more efficient and flexible than the central government. The other considerations were based on the idea that such entities should promote international co-operation in trade, science and technology transfer, financial flows and capital investment. The redistribution effect of them is however contentious as Ikiara alludes to Grosh (1991), Hopecraft and Ogutu, (1982).

The parastatals as Ikiara contends, were established to fulfill various social, economic and political needs, which were nationalistic. At the time of early independence, it was a strong policy in Kenya to maintain a high degree of public control over national resources as a measure of facilitating growth. This was exemplified in the Sessional Paper No.10 of 1965. The same applied to some African States. Tanzania adopted the Ujamma policy from the Arusha Declaration, of 1966. Uganda followed with Common Peoples Charter in 1969, Libya's Green Revolution, Nigeria's and Zambia's nationalization of oil and mineral industries are examples of the sentiments. In this respect, Nyongo holds that the nationalist ideology played a very clear spelt role in defining the development policy in the sixties and seventies.[4] He contends that the laws and institutions suited the ideology. In the same principle, privatization, in Nyongo's view, can only succeed in an environment that is constructed within an ideological setting.

The privatization advocated under the AGOA is conceived from the liberal perspective while the African public sector is heavily mixed and protectionist in

[3] See Ikiara, G. K.;*The Public Sector in Kenya Since Independence* in Nyongo A. *Ibid*., pp.43-44.
[4] Anyang Nyong'o, *Ibid.*

character. This brings a conflict in terms of policy objectives since the sector has original goals that conform to social economic and political interests as already seen. The problems faced by Africa are therefore multifaceted. The conceptual exercise facing all of them is to do firstly with the identification of its objectives and how this should be varied in relation to new demands by the successor firms without deviating greatly from those of their predecessors. The fear is that the succeeding establishments will operate under the profit motive, thereby not likely to strictly maintain the nationalist pursuits.

capital market or

The process of privatization invites a second area of difficulty in terms of techniques, methods and procedures of implementation. Ngugi emphasizes that the exercise entails considerable policy actions for its success. These are favourable market situation, mobilization of resources for purchase and reinvestment, regulatory framework and political support[5]. It suggests the important element of preparation, critical evaluation and assessment to reach a favourable decision on the most rational choice. This agrees with Nyong'o that time to make up the mind is necessary. Some policy options can then be taken based on variables such as level of losses, debt, under-utilization of capacity and failure to efficiently compete. The ability to arrive at the best choice constitutes a critical area to the African governments in view of the low capacity to undertake effective privatization. The technical evaluation of assets, pricing and sale demand a considerably high degree of expertise to accomplish. A casual treatment can cause many regulatory and legal aspects being ignored. A common area is the

5 See Ngugi, R. W. on the emphasis of micro-economic, macro-economic, regulatory and legal environment that influence the process, op.cit.

tendency to overlook the rights of employees. A case in point is the experience of the Telkom workers in Kenya that sought prohibition order from the High Court against the sale of Telkom unless they were satisfied that their future interests were taken into account in the new arrangement.

The determination of value is another centre of conflict between the prospective investors and governments. The protracted negotiation involved in the bid to sell Telkom Kenya is an interesting example of the magnitude of the complication of value perception. The impasse shows the sensitivity that the price is not only tied to the current assets but further encompasses the strategic objectives of development as visualized by the parties. The governments feel obliged to account to the public for the sale of public firms. This demands a struggle to realize the best bargain. This goal is to satisfy the public that the gains will justify the privatization. This stage of preparation is tedious, requires being comprehensive and should often receive the participation of major stakeholders. In most situations it has not been the practice largely due to inadequate capacity and knowledge. Kenya Airways carried own preparation but it is however suspected that self-evaluation can lead to conflict of interest[6]. Thus the other issue associated with pricing is the manner to which it has been done. This calls into scrutiny the element of reputation of doing it. Doubts can arise when the identification and appointment process of consultants is concealed. In order for credibility to be maintained, an open tendering system is the most suitable.

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6 Anyang' Nyongo making reference to World Bank, 1998.

The services in this respect should be procured from reputable professional firms acceptable to prospective buyers. While it is the common international norm, it is however costly to African governments since such institutions are international financial consultants whose fees are beyond the means of the enterprises intended for sale. In the circumstances, governments resort to donors, especially the World Bank appointed consultants or obtain credit to support the programme. In this connection, Kenya has invited competitive bidding for expressions of interest of transactory advisory services relating to the sale of its 35% share holding in Kenya Commercial Bank and for consultancy services towards power market design and pre-privatization study to be financed by credit from the IDA[7]. This is proof of an effort to build the image at a price since in the end the exorbitant costs will add up to the debt burden. The other implication involves the institutional setting to manage the policy implementation. Since, it is a sensitive political and economic endeavour, structures should be put in place at public expense to perform appraisals so that governments can maximize from the sale. The work mandate should involve the importance of ensuring that careful and analytic studies on micro and macro economic environment, regulatory and legal framework discussed by Ngugi are incorporated in the activity for the purpose of being as comprehensive as possible.

The whole argument on privatization of the public enterprises in substance revolves on the ownership issue. The public wants to be convinced that the

7 For details on Terms of Reference, see an advertisement by Investment Secretary, Koimett, S. in The Standard and Daily Nation, April, 19th 2001.

character of ownership does not jeopardize their opportunity to participate in the distribution of divested shares. The government is therefore faced with a compelling reason to examine the methods of disposal that to a large measure, favours the presence of public ownership. The idea is to develop local entrepreneurship, raise and distribute income and reduce capital flight hence balance political satisfaction with economic values. A retention element is therefore usually achieved by a divestiture since it provides for public floatation of full or part of the government shares through formal capital market[8]. The identity crisis is presently covered in the contemplated reforms in the sugar industry of Kenya. It is reported that the government intends to sell 45% of its shareholding in Chemelil Sugar Company broken into 20% to farmers, 5% to employees and 20% to either through the to an institutional investor[9]. Mumias Sugar Company is also preparing to follow the same method and may dispose 30% of the 75% government shares to the public[10].

Inspite of the inherent conceptual and operational problems associated with privatization, there may be some grounds for a thorough evaluation of the merits that it entails in the circumstance of Africa's economies. Firstly, there are public enterprises that are collapsing. The immediate example is the Kenya Sugar Industry. The debt accumulated by Muhoroni at Ksh4.2 billion and Miwani at Ksh1.7 billion reflect on the burdensome investment. Both are under protective receivership to allow for their restructuring and to guard the interest of farmers with an aim to eventually privatize them. Such an action will ensure that there is

[8] See Ngugi, R. W., op.cit.
[9] Oyuke, J.; East African Standard, May 2, 2001, p.13.
[10] Ibid.

competent management and efficient modern technology to revitalize and raise their competitiveness. The public will therefore be relieved of the continuous recapitalization and instead concentrate on developing the necessary infrastructure conducive to the sustainability of the industry while receiving co-operate tax for reinvestment.

Secondly, it can save the firms that are potentially viable but are threatened by collapse if appropriate reforms are not thought of in time. The condition of Mumias Sugar Company to privatize is a preemptive step to remain strong and competitive. Thirdly, there are monopolies that have become too expensive, inefficient and complex to manage. The Kenya Power and Lighting Company represents the characteristics in this sphere. Its failure to design a foresight policy on energy requirement, particularly the reluctance to diversity energy sources cost the nation losses during the 1999/2000 drought in a magnitude yet to be quantified. The current de-monopolization initiative in the sector will open the market to other actors. It will possibly reduce the cost to the Exchequer in the form of credit guarantees, among others. Further, it will create competition and thereby extend services more effectively.

The de-monopolization of the Kenya Posts and Telecommunication is another policy action towards the improvement of competitive environment in the sector. The cellular segment is currently expanding to attract as many consumers as possible. As a result of the competition, the service provision has considerably improved though availability of affordable and varied choice of facilities to suit tastes. Further additional employment has been created in the sub-sector through

new marketing outlets and in the skilled technology areas of management information. The benefits being enjoyed are especially owed to the policy of privatizing the sector which emphasized evidence of ability to rapidly extend the network coverage as a condition for qualification and subsequent assessment of capability.

Privatization can therefore be a suitable reform measure when carefully planned and executed. However, African states should not rush to implement it before critically evaluating its implication both in the short and long run. A decision to privatize as a response to an externally originating policy such as in the case of AGOA can lead to losses to the economy and takeovers of domestic public investments by foreigners on terms and conditions that are unworthy. In this respect, the resource gap theory should not always be the primary interest. This is because foreign investors usually negotiate for capital repatriation. As noted in a symposium on the Report of the Pearson Commission, foreign investors borrow locally but repatriate the profits abroad instead of expanding in investment[11]. It may also be that the FDI injects initial capital from offshore but resort to the local market for further development. A practice to support this view is reported from the Vodafone Plc that its Kenyan subsidiary, Safaricom intends to raise Ksh.4 billion locally to finance its investments[12]. The announcement quotes Tim Harrabin, the Strategy Director for UK, Middle East and Africa that the Company has spent Ksh.2 billion since its inception but that the idea to obtain the required

[11] See Bryres, T. J.; Ed., Foreign Resources and Economic Development. A Symposium on the Report of the Pearson Commission, (Frank Case, London, 1972).
[12] Oyuke, J., *Safaricom seeks Ksh 4 billion investment cash* in East African Standard, April, 21, 2001, p.13.

capital from the domestic market is part of the agreement made with Telecom as a means of promoting local ownership.

The principle is sound as stated but there are certainly no stringent rules to control 'capital flight', from the annual profits. As can be observed, the money to be raised domestically will be twice higher than the Vodafones initial capital. It will likely contribute greatly to the overall company earnings leading to proportionately higher repatriation at the expense of local resources. The absence of strict regulation will definitely cause further exploitation of the host economies. The governments hence need to design policies against the external linkages of the FDI. One such action should be to put conditions that demand future strategic reinvestment and expansion plans as already seen in the context of divestiture in the telecommunications sector.

In perspective, privatization should serve as a catalyst for economic development. The phenomenon as stated in AGOA falls short of elaboration since it is put as a precondition to benefits other than as a faithfully explained policy for reform to spur growth. In view of this fact, it can be easily conceived as an American ideology for submission so that the perceived aid, trade and investment can be extended to Africa. It can be a reform agenda to entrench the industrial and commercial interests of the US and its allies in the Continent. This can be realized with little resistance since Africa's economies are recognized as weak. This is emphasized without ignoring the positive elements of privation, but to express the controversies involved in the activity. As Grosh also puts it in her policy recommendation towards the debate, "the matter is of ideological nature by those

who have "blind faith in the efficacy of the private sector."[13] The substance of this point of view is that rationality should prevail through proper diagnosis followed by appropriate prescription relevant to the different types of the problems encountered by the individual public investment.

4.2 TREATMENT OF TEXTILE AND APPAREL: ANOTHER FORM OF PROTECTIONISM

The eligibility requirements of the textile and apparel are spelt out in Section 112 of AGOA. In particular it emphasizes that the preferential treatment will be based fundamentally on the rules of origin. In order for a comprehensive evaluation of the applicability of this principle to be appreciated, it is necessary to review the historical involvement of the US in the trade.

William Cline posits that the trade in textile and apparel presents a conflict area of intense magnitude between the rich and the poor countries[14]. He proceeds that the industry has manifested "persistent protection than any other industrial sector". This is mainly due to the macro-economic factors in the industrialized nations. The tendency towards restrictions is favoured by the domestic industrial and labour groups largely due to the fact that there are stakes in the form of jobs and earnings to be lost. In the circumstances Cline categorizes US policy options responsible for regulating the industry as confined to the following: one, to increase the severity of protection immediately and decisively; two, to drift away slowly

[13] Grosh, *op.cit.*

Cline ✓ → [14] Cine, W. R., The Future of World Trade in Textile and Apparel. Revised Edition, (Institute for International Economics, Washington D C., 1987), p.1.*Ibid.*

towards higher protection under endless renewals of MFA; three, is the gradual liberalization of the sector[15].

4.2.1 Importance of the Industry to US and the Developed European Economies.

The sub-sectors contribute immensely to the economic output of the industrialized countries. In reference to the Organization for Economic Co-operation and Development, (OECD), Cline shows that the sub-sectors constitutes between 6% and 10% of manufacturing output, 4% and 5% of GDP and 12% of employment in the manufacturing sector. The protection is also significantly strong partly because it is less mechanized as compared to the other sectors such as automobile and steel[16]. In the case of apparel, restriction is enhanced due to its comparative advantage that shifted to the less developed countries in the form of labour intensity. Textile however retained both capital intensity and competitiveness[17].

The levels of profits are also impressive despite the fluctuations experienced intermittently by Britain and US between 1913 and 1960. The period between 1960 and 1982 realized an average of 11% of value added. In Cline's words, it is profitable in relative terms and that the profits are ever promising, ever rising, favourable and provides comfortable high returns to capital[18]. Above all, most of the proceeds are shared other than reinvested. The beneficiaries consequently

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[15] *Ibid.*, p.25.
[16] *Ibid.*
[17] *Ibid.*, p.32.
[18] *Ibid*

regard its lucrativeness as caused by the policy of protection defined in quotas and therefore favour its continuity.

4.2.3 Restraints under the MFA Regime.

The attitude against the penetration of imports into the US gradually developed towards the end of 1950s when it negotiated bilateral treaties with Japan. In 1961, the US led the international community into negotiating Short Term Arrangement (STA) on trade in cotton and textile, followed by Long Term Arrangement (LTA) in 1962. These protocols formed the commencement of multilateral protection. The LTA was renewed in 1967, 1970 and 1973. The aim was to increase restraint levels by 5% automatically through bilateral consultations in the absence of agreements but not actual reductions unless permitted. In terms of implication, there was an intension to reduce import growth by the same percentage annually from Japan and LDCs, which had little bargaining power in GATT.

The US formulated the concept of 'market disruptions' and defined it as *instances of sharp import increases not attributable to dumping or foreign subsidies*[19] First applied in the Kennedy Round and later adopted by GATT, the concept is regarded as being responsible for the discriminatory practices in the industry. It provided a broad spectrum and near limitless opportunity for the industrialized nations, other than Japan to interpret and impose restrictions at will. In 1960, for example, GATT applied the Decision on the Avoidance of Market Disruptions, which allowed for immediate, severe, unilateral and multilateral protectionist measures against individual countries suspected of causing market surge before instituting

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[19] Ibid.,p.150

actual inquiry to determine the facts. It is therefore the view that the adoption of the concept by GATT from STA strengthened and made it the cornerstone of textile and apparel protection thereafter in LTA and then MFA[20].

The MFA I came into effect in 1974 as a consequence of the continued penetration of the imports despite the LTA. Notably, the bulk came from the man-made fibres, which were not covered in the LTA. It generated political discontent in view of its implications. There emerged a domestic pressure in the US to further tighten the quotas and extend it to include areas of man-made and wool products. The MFA I therefore constituted a framework for controlling the trade in the products but with specific norms for bilateral export agreement, which allowed annual quota growth of 6% with swing mechanism. In relation to the US public policy, it established grounds for enhanced restrictions under international legitimacy. The MFA I is most known for creating a precedent in imposing quantitative restrictions against developing countries but not the industrialized ones with the US as the principal protagonist in the endeavour[21].

The MFA II and III followed from the same principles mainly instigated by Europe to target imports from Hong Kong, Japan and Korea. Towards the end of the MFAs in 1980s, the US had reached agreement with thirty-four countries to which it granted limited quotas[22]. The restraints hit the LDCs most until the Uruguay Round in which reciprocity was designed as a measure towards gradual liberalization and to eventually eliminate quotas on apparel and textile by 2001.

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[20] Cline referring to Curson, G., et al., *MFA Forever?*
[21] Goto, J. A.; A *Formal Estimation of the Effects of MFA on Clothing Exports from LDCs*, (World Bank Working Paper, 1990), p.3..
[22] Ibid., p.4

Juricho Goto (1990) maintains that the MFA regime was discriminately imposed on imports from the LDCs[23]. In his reference to Trela and Whalley (1988), the removal of MFA would enable the LDCs to gain US$ 3 billion from the two major markets of the US and Europe. Further, they could be freed from the binding quotas in the two markets, which miserably put them under three bilateral restrictions. One, those bound by EU and US; two, the ones restrained by US and not EU; three, those that were restricted by quotas of EU but not US[24].

4.2.4 AGOA Regime: Gradual Liberalization or Enhanced Restrictions.

It is observed from the above discussion that the active involvement of the US in the protection of domestic industry is largely inspired by the need to secure its profitability.

The substance of the statement of policy governing AGOA is on the promotion of mutual economic relation through increased free market practice. Section 104 defines the general eligibility requirement, emphasizing remove tariff and non-tariff barriers to trade and investment. Section III elaborates on the rules of eligibility. In particular Section III (2) introduces the concept of Rules of Origin, which is expounded in Sections 112 and 113. This covers the country (ies) from which goods are wholly, partly produced or assembled, the specifications and issues of compliance.

The Rules of Origin phenomenon presents a problem in the conceptual understanding and implementation of AGOA. Firstly is the *definition of domestic*

[23] *Ibid.*

[24] Bannister, G. and Low, P., *Textile and Apparel in NAFTA: A Case of Constrained Liberalization,* (World Bank), p13.

content since it raises the question of substantial transformation to identify the transit point and therefore the value added calculation. Using the Normandature Change Criteria, the determination of origin in the case of Sub-Saharan Africa as a region calls for a consideration of whether or not it is a double transformation. This requires that the inputs into the final production also pass the origin test such as apparel that is cut and stitched in the region from fabric also formed in the same region[25]. Another criteria to be thought of is the triple one under which all the production emanating from yarn forward takes place within the region or the simple, multiple which applies to fabrics and apparel or to use the quadruple principle. In the last one, the finished product will have its origin traced to the fibre stage depending on how the spinning and preparation of yarn can be separated in the production process.

In the situation therefore it may be difficult to specifically isolate the product in the market on the basis of input content. This can lead to the suggestion that such requirement cannot be easily met in the context of Africa due to inferior technology to produce the necessary document and monitor the transit points in the effort to verify the places of origin. The US which has the skills and resources can pursue the transformation element on the African products that may sometimes detect cases of violation hence impose penalties or cause the countries suspected to seek conflict settlement at exorbitant costs. The position is aggravated by the fact that African countries rely on imported yarn, which therefore make it difficult for them to meet the set criteria relating to triple transformation.

[25] This is the same condition prevailing in the US policy on textile and apparel towards NAFTA. AGOA can therefore be an extrapolation of US policy towards NAFTA. See Banister, G, for a full discussion. Ibid., p.15.
Ibid.

Secondly, is the ambiguity in the concept of *Preferential Treatment.* The understanding as contained in section 1.2(a) of AGOA is that the beneficiaries will export the products free of duty and of any quantitative limitations as long as certain requirements are met. These are customs rules which are normally qualitative as such rules concern product specifications that relate to the US contents in the inputs as defined in the Harmonized Tariff Schedule (HTS) under sub-headings 9802.80, 5602 and 5603. In reality, the provision establishes an element of production sharing that will be restrictive in character. The African states will only have enhanced access to the US as a matter of exchange for commitment on import sourcing that tie them to the US inputs[26]. Thus it portrays the reluctance of the US to reduce its protectionism[27].

Thirdly, there is the difficulty of *enforcing compliance.* The task involves surveillance against the violations in respect to the logistics of shipment and conformity to technical specifications. The demand that Kenya and Mauritius in particular and the rest of Africa in general must implement an effective visa system before the existing quotas imposed on them by the US under the past regimes are lifted is intimidating and tantamount to continued barrier. Much more, the type of visa that the US has in mind is not clear since the input of the US and final approval of the design must be obtained before implementation. The envisaged complex visa, other than being facilitative, will serve as a hindrance to movement

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[26] *Ibid*
[27] *Ibid*

The *declaration procedures* covering transshipment under Section 113, part b, paragraph 4, read together with sections 111 and 112 is both intensive and extensive in scope. It is tedious to fully comprehend and implement. It further assumes a unitary system of information gathering by the African governments, which is not the case. The Sub-Saharan countries suffer from serious deficiency in information management to be able to detect instances of violation of the rules of origin. The complexity of this clause is not only being experienced by Africa but the US as well. An example arising from its interpretation has been raised in the Congress. The top legislators in the House of Representatives Committee of Ways and Means have expressed concern to the Treasury Secretary on what they consider to be the US customs misinterpretation and thereby charging the duty on 'knit-to-shape' Sweaters from Africa, contrary to the Act[28]. The customs department in their view, failed to confer benefits as a result of its misunderstanding of the clause. It conceived 'knit-to-shape-sweaters to preclude fabric'. In the legislators' opinion, the action was 'a violation of the legislative intent which has to be corrected'.

Fourthly, the whole phenomenon of the rules of origin needs to be examined against the past restrictions based on quotas and tariffs to assess whether there are additional benefits presented by AGOA. As already observed, the US has relied on MFN, MFA, tariffs and quotas as instruments of controlling trade in textile and

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[28] Senelwa, K. and Reuters, *US Customs Violate Agoa trade accord* in East African Standard, March 8, 2001, p.13.

clothing as well as on other import flows[29]. These regimes mainly emphasized quantitative restrictions on specific items from the individual exporting Countries[30]. Although AGOA stresses qualitative restraints, it still largely retains quantitative elements as stipulated in the clause on surge mechanisms. In this aspect, the concept of 'market disruption' is introduced as a carry over from the MFA. It provides that enforcement measures will be in place to monitor 'potentially disruptive import surges in case such increase in quantities is considered to cause serious damage or threat to domestic industry producing alike or indirectly competitive article'.

In essence therefore, there is no free and limitless quantitative access granted by the Act. Both quantitative and qualitative barriers replace the tariffs and quotas. The procedure and methods of determining the surge is also unilateral in character. This is in view of the fact that the law confers the powers on the Secretary of Commerce and 'interested party'. The 'interested party' are entities in the US who are either engaged in manufacture, production, sale of like or indirectly competitive articles, association, agents or unions of the same[30]. These will form a body of inquiry to assess the degree of damage of such imports and thereby recommend to the President the suspension of duty free treatment.

The participation of the 'interested party' points towards discrimination considering that it is the domestic group that favours protectionism because of the high and promising profits they earn as a consequence of the policy. The inquiry

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[29] *Ibid*
[30] Africa's Growth and Opportunity Act 2000.

body will in practical purposes be an adoption of the Textile Surveillance Body (TBS) in the MFA and which was prejudicial. Cline states that the TBS relied on 'equivocations' in rendering judgment on violations of MFA[31]. This view suggests that Africa will not expect much fairness since it has no representation in the inquiry. Further, the African defense can be limited due to the fluidity of its information system and its weak diplomacy to pursue their rights against imposed US penalties. The entire attitude also brings into mind that AGOA may be as limiting as the past regimes if it is considered that the preferential treatment and the former negotiated quotas are both bilaterally negotiated but can suffer from unilateral ban.

In conclusion, the treatment on textile and apparel presents some problems that should be resolved. The protectionist tendency will serve to obstruct entry into the US market contrary to much expectation. The opportunities entailed can however be exploited when both African governments and US work together to streamline them. One will be the improved certainty of the US market, though the rules of origin can cause hesitation to this effect. Two, it provides an appropriate moment for the continent to develop its competitiveness in the industry. This will demand the modernization of technology and the revitalization of the cotton production that is in near collapse. According to the World Bank, Africa exported 404,000 and 642,000 metric tons of cotton in 1980 and 1996 respectively. The annual growth between 1975 and 1984 was 1.6% while it showed a leap to 6.7% between 1985 and 1989. This has since been estimated to decline to 0.3% in the 1990 - 2000 period. Kenya recorded 18.6% during 1975 to 1984, rising to an overall high of

[31] Cline, op. cit., p. 150.

73.2% but later realized a drastic drop to 11.3% at the end of 2000[32]. Africa therefore needs to focus policies that can increase resources to rehabilitate the entire production, specifically on domestic pricing, marketing and exports.

4.3 EVALUATING ASPECTS ON TRADE AND ECONOMIC DEVELOPMENT RELATED ISSUES.

The AGOA Act invites reforms in the areas of trade and investment. The desire to open the African markets for the US is based on the assumption that it will promote competition among the previously protected firms as a result of attitude and behaviour change. It is also conceived that Africa is resource scarce and therefore trade, investment and aid will contribute significantly to capital transfer so that African economies can be improved through reinvestment.

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In view of this argument, the Act provides for the institutional arrangement to facilitate the resource transfer as already discussed in Chapter III. The facilities and services, which are expected to be extended to Africa, can be of considerable gain in terms of information access to markets and investment opportunities, technology and infrastructure. Amjadi and Yeats (1995) quote Helleiner, Keesing and Meier on the gains from international trade as entrepreneurship, economies of scale linkage effects and export diversification.[33] These however cannot be effectively realized when barriers, both tariff and non-tariff prevail.

[32] See World Bank; African Development Indicators, 1988/99, (World Bank, Washington, DC), table 5 – 25.

[33].Amjadi, A. and Yeats, A.; *Non-tariff Barriers Africa Faces*, (World Bank Policy Research Paper, World Bank, 1995).

The problem of restrictions therefore causes a challenge to the envisaged advantages. Africa has taken significant steps in the liberalization of its economy for the purpose of attracting investment and trade. The US also needs to reciprocate by abolishing lists of discriminatory practices. This situation is recognized under Section 125 (c) that proposes to create an International Trade Commission to identify the hindrances emanating from both sides. It is however not specific on the composition of the Commission so that the impartiality of the representation can be assured. Further, given that its commercial policy is largely determined by its domestic structure[34] that puts the conservative, congressional committee against the liberal executive, there is no certainty that the degree of its protection will soon be relaxed.

Transport is another factor that is not addressed in the Act. It has a big impact on the Africa's exports in view of the charges that it adds into the final products. Amjadi and Yeats stress that the cost of international transportation on Africa is similar to tariffs, and attribute the decline in Africa's export performance between 1950s and 1990s to this fact. As a large continent with majority being landlocked countries, the multimodial transport is compelling. Africa is a producer of primary goods and a net importer of manufactured capital goods that are both bulky. The cost in relation to balance of payments showed a net freight deficit in 1990/91 when the insurance consumed US$ 3.9 billion that represented 15% of the total volume of the regions exports[35]. Referring to the evidence from the National

34 Katzentein, P.; International Relations and Domestic Structures; Foreign Economic Policy of Advanced Industrialized States in International Organization Vol.30, I Winter, 1976, p.25. See specifically the gist of argument that "Foreign Economic Policy can be understood only if domestic factors are systematically included in the analysis".
35. Ibid., p.5.

Customs Statistics, Amjadi provides a summary of Africa's tariff transport cost for its exports to the US in 1993 as 8.7% compared to other developing countries at 7.2%. In the final assessment it takes one third of its export value and higher than the other developing countries at 5.8% on the average.

In respect to the US, the air mode is crucial since it accounts for 25% of its imports. The landlocked countries of Africa can therefore improve on the air infrastructure to capture the US market. This is also particularly because the US imports from the continent, apart from oil, are light and perishable. AGOA, however only makes reference in Section 126 about the US donating outdated air traffic control equipment to eligible countries. It is very much aware of the limitation imposed upon the continent by the inadequate navigational facilities, but prefers to extend the obsolete equipment that will soon pose huge maintenance problems with far reaching implication to costs and movement. The challenge of persistently rising costs prevents free penetration of Africa's products in the international market. According to Amjadi and Yeats, it is a barrier in the efforts to expand trade where there are opportunities for value added content of traded goods. This places Africa at competitive disadvantage vis-à-vis US.[36]

The responsibility to attract foreign investment flows depends solely on Africa building a conducive environment. In this context it is expected that the continent should create political, social and economic stability, taking into account the home factors as of primary interest. Such action will aim to reduce crises, unrest and

36 Ibid.

disorders that can disrupt investment[37]. There should also be simplification in the regulatory process to cut down costs of doing business. The requirement, when fulfilled will contribute immensely to the predictability of investment. While Africa should strive to meet the level of policy reforms in these areas, it is also essential and fair that the conditions are not arbitrarily imposed by the US to create denial of the opportunity.

The lending and financial assistance terms also need to be flexible. As the Act stipulates, there is a deliberate bias to support the programmes that target poverty reduction and those that are entrepreneured by women. The idea is commendable but can be hampered by the rigidity of qualifications. There are also obstacles to obtaining information by the nationals, which emanates from the difficulty of accessing the US Embassies because of security concern, which poses long bureaucratic procedures, and therefore cause discouragement to potential investors. In this situation, there can occur incidences of underutilization of funds, which the US may interpret to mean lack of absorption capacity and thereby resort to other measures to curtail the facility. Another area of weakness regards the US investment priority in Africa. As observed in Chapter 2, the US favours investment in the sectors that yield raw materials. It is therefore hard to appreciate how the new policy intends to suddenly improve in this bias.

Last but not least, the proposal on debt relief does not expound on the external factors to Africa's situation. Jacky Mathennat reviews the crisis and concludes that

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37 See Sajan, S. R.; Liberalization and Foreign Capital Flows in the Presence of Uncertainty and Irreversibility. Theory and Policy Consideration on Development and International Cooperation, Vol.X. No.19, December, 1994, p.81

the continent's condition is likely to continue since most of its debts are non-negotiable, owed to World Bank and its affiliates. The repayment is also vulnerable due to the reliance on fluctuating exports[38]. In this tight circumstance, it is not feasible to assume that the US will be able to influence lenders towards a common relief since there are different conditionalities attached by each on the respective credits.

4.4 THE FOREIGN POLICY CONTEXT OF AGOA.

The three themes of trade, aid and investment dominate the US foreign policy towards Africa. The extension of aid as seen in the previous chapters is reluctantly treated since the policy has been shifting over the last four decades to emphasize on trade and investment. The main reason is that it accentuates dependency and debt accumulation as opposed to the other economic interactions that can provide greater sustainable opportunities in resource transfers, linkage effects and the improvement in the competitiveness of Africa's manufacturing and agriculture.

The conditions for increased free trade and privatization on the part of Africa are actions that are meant to satisfy the US old policy objective of securing access to the raw materials. The envisaged preferential and free trade area will enable the US to enhance its control over the supply of the commodities and to also stabilize the prices. AGOA is in substance built upon the existing framework discussed in the past chapters and embraces continuity of the same to suit the present context. In the US Agenda for Action, 1976, the security and flow of the market,

38 Mathennat, J.; The Impact of External Factors and of Domestic Policies on External Debt. See particularly Special Factors Accentuating Sub-Saharan Africa's debt Situation in Tore, R., Ed., Crisis and Recovery in Sub-Africa (Organization for Economic Co-operation and Development, 188), pp232 – 233.

In the US Agenda for Action, 1976, the security and flow of the market, investment and supply of products, resource transfer, poverty alleviation, food availability and overall pursuit of programmes to economic development of the LDCs were considered for major policy change through 'global bargains'[39]. The phrase applied apparently to multilateral negotiations with various regimes for enhancing the LDCs global economic position. In return, it is demanded that the LDCs uphold and practice justice and equity as fundamental liberal values. It is worth noting again that it is confirmed in AGOA as prerequisite to the benefits.

In conclusion the liberal theory behind the privatization is relevant, but should be more defined than at present. The fact that there are no measurable data expected from Africa other than evidence of carrying out the activity makes the requirement to be subjective. It can be a deliberate foreign policy tool for the US to decide on own basis and time when it is desirable to extend the benefits of AGOA to individual countries. The provisions on textile and apparel are still protectionist showing a gradual shift to free market. This shows that the US is still restrained by its domestic industry to fully accept similar imports. The areas of trade and development reflect an integration of the presently diverse loss into one coherent system to enforce the policy. Even though the aim is to improve Africa's access to resources for sustainable growth and development, it is possible that little success will be realized, unless the global economic problems that have made Africa subordinate are uniformly reduced.

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39 See the Introduction Chapter by Hesburgh, T. M. and Grant, J.P. in Hansen, R. D. and Overseas Development Council: the US and World Development: Agenda for Action, 1976, (Praeger Publishers inc., N. Y. 1976), pp.1 – 44

The AGOA Act presents numerous opportunities despite the constraints that are examined. As for Africa, it is important to initiate internal policy adjustment to modernize and improve on the level of competitiveness, for this will guarantee sustainability in the international market. At the same time, governments should not be discouraged by the obstacles that are experienced currently and those that can be foreseen but to aim first at penetrating the US market to build contacts and confidence. This can be achieved simultaneously while engaging the US in negotiating provisions that will reduce distortions and increase the flow of trade and investment. Above all, Sub-Saharan Africa must improve on its image since international economic relations thrive on subjective values. The more social, cultural, economic and political practices are appreciated, the greater the possibilities for intensified exchange to promote growth and prosperity.

CHAPTER FIVE

5.0 FINDINGS: IMPACT AND IMPLICATIONS FOR POLICY.

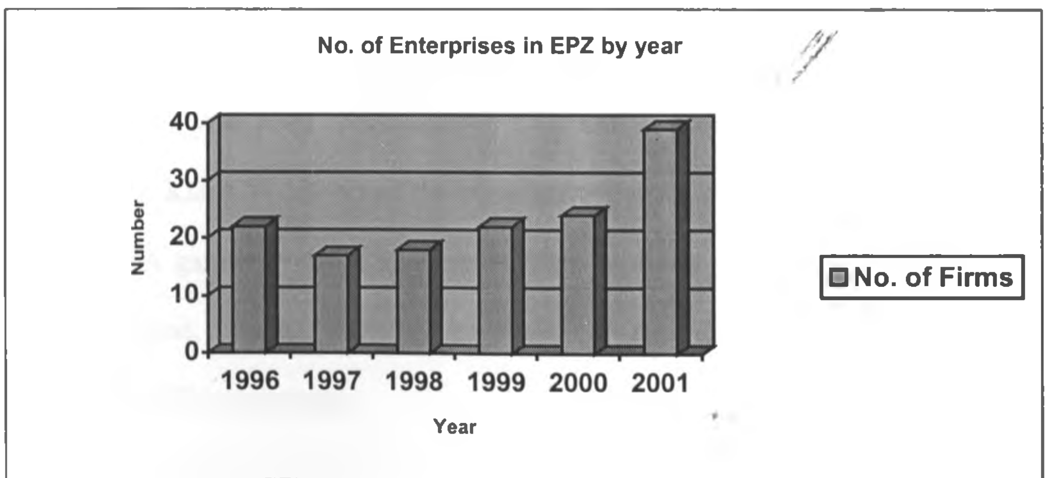
Kenya became a beneficiary of Africa's Growth and Opportunity Act in 2000. Study shows that impact into the Kenyan economy has been experienced in several areas as a result of policy changes initiated by the government to take advantage of the opportunities. The main finding is that investment and trade activities are concentrated in the Export Processing Zones (EPZ) enterprises since they are established and designated by the government to offer the incentives for the type of investment under AGOA.

5.1.0 IMPACT OF AGOA ON KENYA'S ECONOMY

5.1.1 Investment

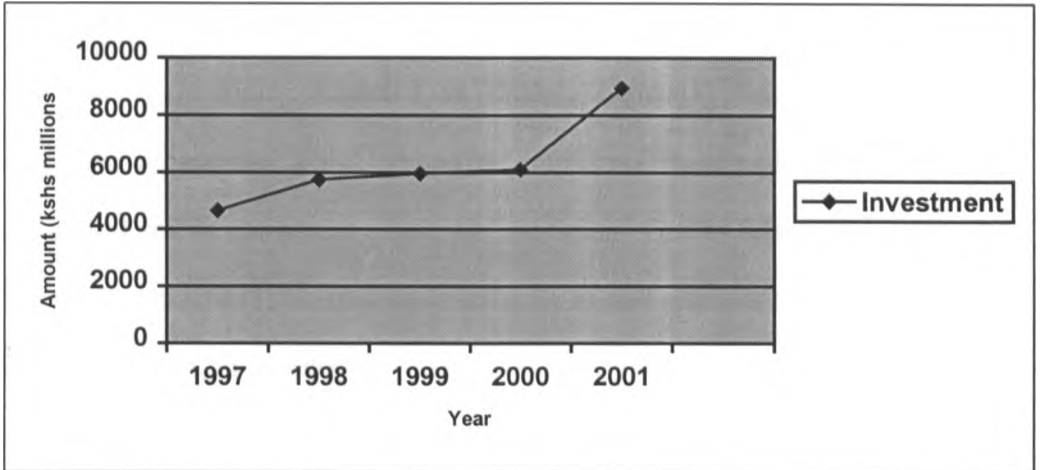
Figure 1. shows the trend in investment in EPZ caused by AGOA. There were thirty-nine (39) firms operational in the EPZA in 2001 as opposed to twenty-four in the year 2000.

Figure 1. Number of Enterprises in EPZ by year as obtained from the EPZ.



It is established that within two years of Kenya's qualification to AGOA privileges, seventeen (17) new firms were created, all were investment in garment sub-sectors representing 20% increase from 1999.

Figure 2



Source: Export Processing Zones Authority, Annual Report 2001.

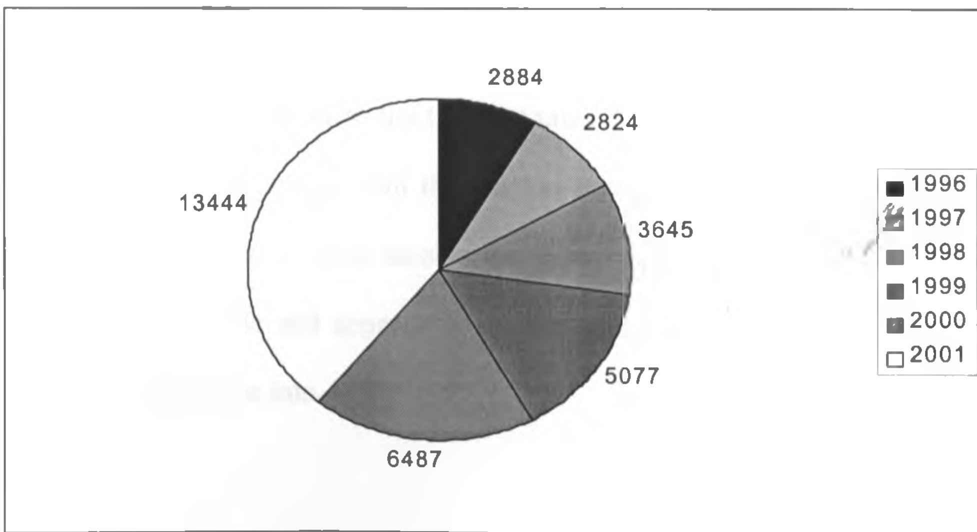
5.1.2 Capital Investment on AGOA Specific firms.

Figure 2 indicates the trend of capital investment in the EPZ from 1992-2001. It is observed that cumulate capital rose from Kshs. 6.107 billion in 2000 to Kshs. 8.950 billion in the year 2001. According to EPZ Annual Report, 2001, Ksh.1.2 billion out of the Ksh.3.76 billion of the cumulative figures above are attributed directly to AGOA garment related investment. This implies a growth of 214% in the sub-sector alone. In total, therefore investment in the sub-sector constitutes 41% of the total EPZA investment.

5.1.3 Linkages: Direct Employment and Technology Transfer.

Kenya has generated about 6,657 jobs within the AGOA export firms located at the EPZ since 2000. Figure 3 illustrates the trend in employment in the EPZ enterprises from 1996 to 2001. The increase in job opportunities from 6,487 in 2000 to 13,444 in 2001 is directly attributed to the garment and apparel firms established after Kenya qualified into AGOA privileges. The study however could not obtain the specific number of employees in each category of skills but the garment industry is highly regarded as skilled. Eight (8) firms showed a comprehensive programme which respective employees must undertake before they are considered as competent. There are two levels. One is basic tailoring (3 months), screen printing (3) months, basic skills for knitted products (3 –9 months) and sewing operator (2-4 months).

Figure 3: EPZ Employment Trend, 1997-2001



Sources: EPZA Annual Report, 2001

5.1.4 Limitation on Employment and Technology Transfer.

The study obtained that the transfer of skills is hindered by the following:

- the textile and garment industry is geared towards specific tasks only hence employees are trained on the areas that are critical to production such as cut, quality control and stitching. As a result people acquire partial and not complete skills. This restricts employees job market, thus they cannot get jobs elsewhere to continue contributing to economic development.

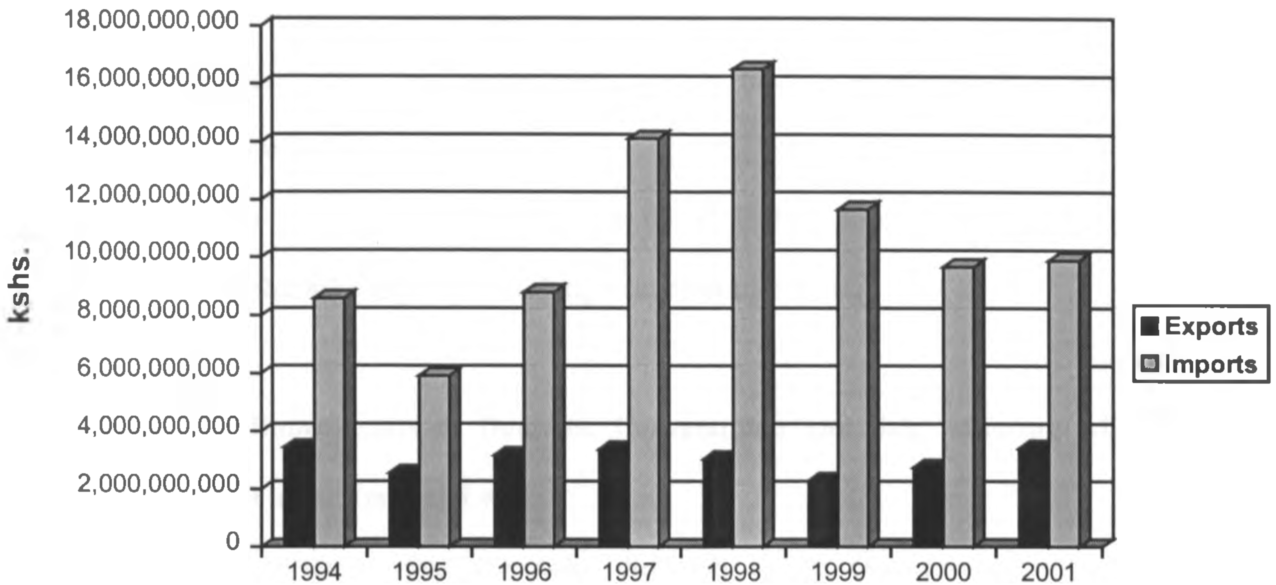
5.1.5 Linkages: Domestic Consumption and Sales.

- The total expenditure in salaries of employed Kenyans on utilities from purchase of local raw materials and other services that accrued to the economy rose from Ksh. 1.2 billion in 2000 to Ksh. 2.2 billion in 2001. The increase of 88% is attributed to growth in apparel and textile firms which came into existence as a result of AGOA.

5.1.6 Increased Trade with the United States.

Kenya's trade performance with the US has improved in the years from 1996-2001 but the balance of trade favours the United States as indicated in Figure 4. The export in textile and apparels have increased significantly within a year of Kenya's qualification into AGOA.

Figure 4 US-Kenya Trade Statistics by Year.



Source: Economic Survey, 2002.

- Kenya exports to US fluctuate.
- The export value estimated at Ksh.3.4 billion destined to the US from the EPZ enterprises comprised textile and apparel. This has reduced the trade deficit to Ksh. 3.5 billion in the year 2001.

5.1.7 Institutional Reforms Undertaken to date.

- *The Customs and Fxcise Regulations, 2000* has been published to define the visa requirements in order to control circumstances of violation of rules of origin and transshipment. This would reduce possibilities of unilateral ban being imposed on Kenya's goods.

- *Intellectual Property Rights Act 2001* has been enacted to enhance income earnings to its creators, workers and users.
- *The Export Processing Zone Act, Cap 517* gives investors certainty and security. This has largely contributed to the rise in number of investment towards AGOA within two years.
- The government *zero-rated duty* on all inputs towards cotton industry in 2002/2003 budget speech along with other incentives.

5.2.0 Impediments to Domestic Consumption and Sale Affecting AGOA Firms: Tertiary Level.

The problems in this area were disclosed to the researcher through open discussions with the EPZ officials at the EPZA Headquarters, which also agree with the views expressed by Kenya Textile and Garment Manufacturers Association.

1. *Infrastructure*

- Telecommunications and Electricity interruptions are frequent.
- Frequent water shortages affect production.
- Shortages of telephone and fax lines.
- Poor state of roads is cited by the garment exporters as a major disincentive to investment. The poor condition of roads results into high costs of transport and consequently to incompetitiveness of the products.

2. *Macro-economic conditions*

- High tariffs imposed in utilities and other input products.

- Local prices of raw materials and packaging such as threads, polybags, cartons, stationery, chemical and petroleum products are bought at exorbitant prices.
- The negative growth rate of 0.3% of the economy has an advance effect on the textile and apparel industry.
- High cost of borrowing.

3. *Customs Regulation and Bureaucratic practices.*

- The Customs Regulations are cumbersome and causing delays before necessary approvals are granted.
- Most suppliers are not conversant with customs VAT rules as applicable to EPZ enterprises hence, apathy, delays and defaults.
- Long government procedures in the approval and granting of necessary letters.

4. *Insecurity*

- The relative high sense of insecurity caused by terrorism such as the September11, 2001 has created uncertainty in the markets.

5. *Poor Quality Raw Materials*

- Late deliveries and sub-standard inputs especially thread and embroidery are experienced from local companies.

5.2.1 Problems affecting the Supply Chain: Primary and Secondary Levels.

Output

Production of cotton has fallen as the country is producing 3,700 metric tons against the government projection of 22,000 metric tons annually. This signifies a drop in output of between 50% and 60% and results into low capacity utilization equivalent to the same output.[1]

Export Markets.

The exports have suffered due to competition from Asia whereby export compensations by respective governments has created incentives.[2]

Cost of Production and Return to the farmer.

Farmers operate at a loss of Kshs. 3 per kilo of seed cotton due to high cost of production necessitated by high cost of inputs brought about by taxes.

Market.

The ginneries are reluctant to offer favourable prices to farmers due to their low capacity utilization and the fact that lint seed is cheaply available from Uganda and Tanzania.

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[1] Economic Survey, 2002 and National Development Plan, 2002-2008

[2] This is cited by the Textile and Garments Manufacturers as the greatest threat to Kenya' participation in AGOA. Imports of cotton yarn from Asian countries confirm this. See Economic Survey, 2001 and 2002.

Technology.

The ginneries are of old technology which produce at higher cost. Modernization has been difficult due to lack of competitiveness in the industry. The yarn spinning also suffer from the same problem thus leading to high cost of production and low quality fabrics as indicated earlier.

Quality of Lint Seed.

The seed varieties are of low quality as they are less disease and drought resistant. The seeds take too long to mature and are also of low yield. There is no further processing done to improve on the quality to enable it survive the conditions.[3]

Regulatory Environment.

The Cotton Act, Cap 335 has become moribund since it has been overtaken by gradual deregulation through adoption of market based reforms and removal of some inputs, licenses and free exchange rate among others. Despite this, the Act is technically in force, bringing a disparity between policy and law in the liberalized economy. The net effect is that the Cotton industry has no certainty and security as there is no established channel of communication and redress.

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[3] Ikiara Moses and Ndirangu Lydia. (Kenya Institute of Policy Research and Analysis).

CHAPTER SIX

6.0 SUMMARY, CONCLUSION AND RECOMMENDATION.

AGOA has provided fairly liberal conditions however as observed from the study, there are still many problems that impede the ability of Kenya to take the full advantage and improve its economic performance.

The opportunities however have spurred significant growth in the export trade in textile and apparel. Kenya has been able to make reforms within the short duration of her qualification into AGOA privileges to realize a leap in this area of textile and apparel commodity. Kenya has managed to narrow her trade deficit with the US by over 50% within a period of one year. The gains in foreign exchange would alleviate the current debt serving problems, standing at Ksh. 296,483.3 million in 2001-2002, thus create favourable conditions for increased domestic consumption and capital inflows in the form of investment. This can be improved further when the appropriate policy reforms are taken on the conditions of infrastructure, fiscal policies that discourage investments which are still inadequate.

While it is noted that some liberal policy measures have taken place to revitalize the economy, much more incentives still need to be introduced, especially to revive the Cotton Industry. In order to be self-sustaining and to satisfy the AGOA market, lack of regulatory framework is seen as the greatest stabling block. The country needs to take into account that the provisional period of five years within which it is required to build its own capacity to produce and export to the US would end in the year 2004. To enhance its competitiveness, it would need not only to be self-sustaining but to also develop appropriate technology which would make

production efficient, cheap and of high quality yield. This should be born in mind that Kenya would be competing for the same market with a number of African countries from which it is presently importing cotton yarn. It is most likely that such countries may impose conditions to deny Kenya of the cotton imports.

In conclusion, the liberal theory behind AGOA is positive and would transform Kenya's economy if well implemented. The stringent rules and conditions which determine eligibility would be regarded initially as impediments but in essence are meant to influence economic and public policies in general to be facilitative to development. Even though, it is observed in the analysis in Chapter Four that the provisions on textile and apparel are still protectionist, with a gradual shift to free market, it has contributed a lot to create awareness and actions which has promoted trade.

AGOA hence presents numerous opportunities and challenges. These are to modernize in all fields of production to make Kenya goods competitive locally and internationally. It has also some good intentions to reform governance from the perspective that enables political leadership to initiate desirable changes, improve on accountability and transparency. The forward and backward linkage effects which AGOA has presented and those which would be exploited in future when it is fully operational, would greatly reduce the poverty situation among other socio-economic benefits.

6.1 RECOMMENDATIONS.

The following recommendations are made to improve conditions for taking advantage of AGOA:

6.1.1 Investment Conditions: Tertiary Level.

1. *Infrastructure*

- Powerline to EPZ should be exclusive to them only.
- EPZA should install stand by generators to cut costs of interruptions.
- Expand telephone lines.
- Telkom to modernize communication facilities.

2. *Customs Regulations*

- Put fully operational customs offices at the respective EPZ enterprises.
- Institute same day one stop shop customs services and single business permit reduce documentation and same time.
- The government should complement the suggestions above by sensitising the industrial and business communities on the VAT operations as applicable to EPZA enterprises. This will encourage their participation and reduce the present apathy and delays.

3. *Technology Transfer*

- In order to address the skill gap, the government is urged to develop curriculum that suits the requirement of the textile and garment industries in the EPZ. The in-house training offered simply complement the deficiencies but allows the employees to possess and retain skills that can be applied elsewhere to enable the economy to

utilise their skills. Identification and subsequent incorporation of skills relevant to the textile sector will greatly improve the level of employment of Kenyans in the EPZ.

These measures would greatly enhance the linkage effects in the economy in particular and to export performance generally.

6.1.2 Revival of Cotton Industry: Primary and Secondary Levels.

Costs.

To reduce the producer costs, it is suggested that the government provides subsidies and offer financial assistance to farmers in the form of credits and inputs. Input costs can further be saved by adoption of non-tillage (no ploughing) method of farming.

Markets.

The raw materials should be competitive and rank within the range offered and accepted internationally. The entire production chain should be re-organised to provide market for each player within it competitively.

Technology.

Apart from the non-tillage farming suggested above, high yield disease and drought resistant shorter maturity and high quality lint seed should be developed by the government. To improve the capacity of the ginneries, the government should revive the facilities through rehabilitation and the acquiring of cheaper alternative technology like the saw gins. Research should be intensified to design

and develop cheap and efficient machines that can be applied in small holdings, taking into account that the large irrigation schemes at Bura, Hola and Marigat have collapsed, leaving only small scale producers.

Regulatory/ Facilitative Environment

A definite policy should be formulated and a new law be enacted within the liberalized framework to define the structure which should co-ordinate and integrate the activities of the industry. The Cotton Act should be repealed immediately. An apex institution called Cotton Development Authority should be created to oversee the sustained growth of the industry.

The primary responsibility of such a framework would be to harmonise supply and demand structures. This can best be achieved by creating relations within the chain in which each category of actors would form an association that links with the other. It is suggested that such an arrangement should work as follows:

- *Cotton Farmer's Association* should be concerned with sourcing of inputs.
- *The Ginner's Association* to organise the farmer in terms of inputs, credits, delivery systems and to set standards of fibres. It can also, as a distinct entity serve as a force for accessing the credit and influencing the market.
- *Textile and Garment Manufacturers* are important in absorbing the products from the primary groups and has responsibility over the quality of materials received from the ginners, spinners or weavers.

This structural arrangement would build certainty in both the supply and demand sides by evaluating the respective costs and therefore create a competitive environment.

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