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Challenges and Opportunities Facing Textile Industries in Kenya in the Wake of Africa Growth and Opportunity Act

David R. Tuigong and Thomas K. Kipkurgat

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Corresponding Author

David R. Tuigong

Abstract

The textiles industry has been in existence for a very long time in Kenya. Textile industry grew rapidly after the Kenya’s independence due to government support and protection offered to textiles firms under the import substitution strategy and facilitation to locate textile industries into major towns in the country. In mid 1980’s production fell incredibly due to liberalization and change in policy reform which enhanced competition by importation of cheap and high quality secondhand clothes. The restoration of the textile and apparel industry in Kenya was expedited by the enactment of AGOA which opened up the opportunity for growth. AGOA market assurances fastened the investments in textile and apparel industry in Kenya. Despite the extension of AGOA it doesn‘t give adequate confidence to the private investors. The ongoing liberalization, globalization, and technological advancements albeit simplifying sourcing arrangements give no confidence. Despite the Kenya textiles and apparels sector having great potential to spur economic growth, the textile sector has been declining over the years causing acute decline in the number of employment.

INTRODUCTION

The liberalization of the country‘s economy in the early 90’s resulted in great competition from other parts of the world. The liberalized economy saw the emergence of imported textiles which had a direct impact on the closure of several local textile industries hence affecting the Kenyan textile industry which was one the most important contributors to industrial development. GOK (2008), Escalation of volume of imports from Asia threatened firms that were exporting under the African Growth and Opportunity Act (AGOA). Kenya‘s textile industries was hampered by corruption, obsolete machinery, unskilled manpower, high cost of production, stiff competition, and upsurge in consumer preference for imported textiles.

Kenya has been characterized by weak export growth, poor diversification and low foreign investment levels and in an effort to help the country and the African continent at large to overcome its trade and investment constraints, the African Growth and Opportunity Act (AGOA) was signed into law in 2000 as part and parcel of the US Trade and Development Act of 2000.

Literature review

AGOA has been the cornerstone of U.S. trade relations since entry into force in the year 2000 with Sub-Saharan Africa (SSA). The SSA has benefitted from exporting products with duty-free and largely quota-free access to US markets. By granting duty free and largely quota-free access to African exports, AGOA is expected to promote exports to the US, as well as attract investments to Africa, thereby helping stimulate economic growth, Mueller (2008).

AGOA places a heavy emphasis on Africa’s emerging textile and apparel industry as the primary sector for trade benefits. This sector is considered to hold the highest potential of fostering Africa’s export competitiveness and export led pro-poor growth by generating greater employment due to its relative labor-intensiveness. The Act also provides for technical assistance to promote firm-to-firm business relationships, assist African states with market-based economic reforms and encourage greater African participation in WTO negotiations (notably, with an emphasis on deepening services trade liberalization, a sector where Africa countries have liberalized less than developed country members of the WTO).

According to, (Kinyanjui, Lugulu and McCormic 2004) the textile and apparel sector represents a rising share of US AGOA imports. In terms of value added and structural transformation, this sector had been touted as the primary conduit of growth in a group of countries notwithstanding the prominence of energy, mineral and related products imports. Beyond trade and investments and the requisite improvements in the socio-economic and political framework, the main overarching goal of AGOA remains that of helping African countries reduce poverty. Yet poverty reduction is only possible if trade and investment lead to higher growth by increasing income and reducing inequality through an improved redistribution of wealth.

The textiles and apparel sector have been the fastest growing exports to the US under the program. The act played has assisted exports of textiles and apparel goods which became the country‘s dominant export category to the US. According to Maiyo and Beatrice (2012), the number of manufacturing firms, the value of exports and also the number of employees have increased due to the facilitation by AGOA. This is an advantage to the African countries however came under threat from year 2005 as a result of gush in textile imports from Asia.

The extinction of the textile and apparel industry in SSA is likely to further erode the AGOA benefits if AGOA provisions are not protected and extended on a more permanent basis. This will halt the revitalization of the cotton-textile to garment chain which had started taking shape. Extending AGOA on short term basis such as 5 years will intensify the current decline with eventual impact of textile trade thus remaining minimal meaning very little investment in textile manufacture will take place. It can further result to disruption of the cotton-textile chain.

Also to be affected by such changes will be the complementary (banking, logistics) as well as related sectors in the value chain (cotton growing, ginning, spinning, and weaving). It is essential therefore to have a more decisive arrangement where AGOA is extended on a more permanent basis. Failure to extend AGOA will confound the textile and apparel contribution to the manufacturing sector in Kenya, thus devastating the Vision 2030 which prioritized textile and apparel in the manufacturing sector in propelling the economy to a 10 per cent growth rate and support the country‘s economic growth, ACTIF (2010).

Challenges facing textiles industries in Kenya

High production cost

Ikiara and Ndirangu (2004) observed that textiles industries in Kenya still experience high cost of production arising from various factors for example high cost of electricity, technological changes, poor infrastructure, high interest rates and unskilled labor. It can be noted that various textiles industries in Kenya still poses old machines which compromises on the production. Due to lack of money to buy sophisticated and modern machines coupled with taxation and high exchange rate to import new machines, textiles industries continue to face enormous challenges.

Unskilled manpower

Another major problem facing textiles industries is the poor quality, insufficient training and inadequate supply of human resource. Due to financial challenges, textiles industries tend to employ cheap and unsuitable labor force than hiring highly trained and qualified manpower. According to Bosibori (2000), the mainstream academic institutions offering courses in the field of textiles have not adequately catered for the industry because universities training in Kenya lack a direct practical link to the industries. It is uncommon for many companies to undertake on job retraining courses for new graduates which also become expensive for the textile company.

Stiff competition

Textiles industries in Kenya experience stiff completion both in the importation of raw material and export of finished products in to the market. Due to the fact that various textiles industries in Kenya still use obsolete technology the products produced are of low quality which are not competitive in the market. Also the high production cost is another factor that makes textiles firms to be more prone to stiff competition.

Corruption

Corruption is one of the biggest challenge facing textiles firms in order to compete effectively, the country experience corrupt importation of textiles products that evade tax duty and uncontrolled imports of second-hand clothes which flood the local markets and bring unfair competition. Counterfeit textile products are also a common scene in the Kenyan market.

Materials and methods

The study targeted a comprised population of 6 official at the Ministry of Foreign Affairs and International Trade and 8 owners of textile companies under the Export Processing Zones (EPZs) and 5 officials at Export Processing Zones. Interviews were carried out with official at the Ministry of Foreign Affairs and International Trade and owners of textile companies under the Export Processing Zones (EPZs) and officials at Export Processing Zones. Secondary data was retrieved from document analysis and review of published and unpublished material, journals, academic papers and periodicals.

Results and discussion

The study collected qualitative data which were analyzed though content analysis. Content analysis involved systematic and objective identification of special characteristics of a message gathered from written documents and transcriptions of verbal communications.

Short Time Horizon Undercutting Investments

AGOA was initially envisaged to last eight years but was later extended until 2015, in order to furnish beneficiaries with sufficient time to develop capacities and upgrade their competitiveness. However, AGOA's temporary nature discouraged long-term investment as the ten year 'window of opportunity' dissuaded investors in light of the difficulty of recouping capital prior to the expiry of the Act, thus lowering potential benefits significantly. Hence, it may be argued that uncertainty with regards to AGOA's time horizon has undercut related investments significantly.

Competitive Environment Increasing

With the expiry of the Multi-Fibre Agreement in 2005, the textile and apparel sector was opened up to competition, particularly from Asia. Consequently, exports plummeted from $1 billion in 2004 to $0.9 billion in 2009, contrary to the general perception that it would ensure Africa market access to those countries which had protected their markets through 'grandfather clauses', highlighting that preferences remain crucial for the nascent textile and apparel sector in SSA. Furthermore, there have been recent proposals by the US Congress to extend AGOA-like benefits to countries such as Cambodia and Bangladesh, which, if extended, would lead to an erosion of preferences granted to African countries, and a subsequent loss in market share in favor of the more competitive Asian beneficiaries.

Agricultural Exports Remain Low

Agricultural commodities account for little AGOA exports. AGOA adds 541 products to the 519 which already benefit under the US GSP. Hence, the preference margin on half of these goods is permeated since preferential treatment is thereby afforded to other non-African developing countries. Adding to this preference erosion, AGOA also has important exclusions on specific agricultural products, such as sugar, peanuts, dairy and tobacco, which are among the main revenue generating exports sustaining many African countries. In addition, US subsidies for domestic producers, such as the cotton subsidies, eliminate any competitive advantages of Africa's agriculture sector under AGOA.

These subsidies artificially lower world cotton prices, thereby reducing revenues of African cotton exporters and curtailing the development of a textiles and apparel sector in Africa. Further, more than 200 tariff lines, representing 17% of the total number of dutiable agriculture tariff lines, do not enjoy preferences neither under AGOA nor the US GSP. Products under this last group are also subject to considerable tariff escalation, eliminating virtually any market access opportunities for African agricultural products. Finally, non-tariff barriers such as standards and SPS impose additional demands on exporters, further undermining agricultural market access for African countries.

AGOA-Eligibility Revocation Impacting on Regional Integration

Integrating Africa's economies locally to compete globally is vital to Africa's long-term economic success. AGOA eligibility is reviewed annually by the US, which has the option of unilaterally revoking benefits if certain economic, political and human right conditions are not meet by the beneficiaries. The suspension of s AGOA benefits in on beneficiary country can have important ripple effects on its regional trading partners if. For instance, Madagascar's recent ineligibility (on account of an undemocratic coup) has affected several countries which are also AGOA beneficiaries, as Madagascar's apparel sector uses denim fabric from Lesotho, zippers from Swaziland, and cotton yarn from Zambia, Mauritius and South Africa.

Trade Logistics Hampering AGOA Utilization

Africa's major supply side constraint is trade logistics, which determines the cost of getting goods from the factory gate to end consumers. Infrastructure deficiencies, coupled with poor public institutions and lack of competition among service providers, hamper the efficient movement of goods. For instance, in East Africa, the average cost of trade logistics is equivalent to a tax of between 25 and 40 percent on value-added, which impedes entering markets with competitive prices.

Socio economic impact of AGOA

The direct jobs generated by AGOA in Sub-Saharan Africa are about 350,000 while indirect jobs are 1,000,000 and about 100,000 jobs in the US. As of 2012 the top five AGOA-beneficiary countries in were Angola, Chad, Gabon, Kenya, Nigeria and South Africa.

Recommendations

From the findings of this study there is need for AGOA to be reformed into a more inclusive, accessible and permanent framework by advocating for a longer time horizon beyond 2015. It is also recommended that there is need for better linkage of the Aid for Trade Initiative with AGOA to address identified constraints being faced by African countries. Partnerships between governments and foreign interests should condition enjoyment of AGOA benefits on capacitating local employees and firms, so that lasting innovation and skills creation may take place in the beneficiary country. This will enable AGOA beneficiaries to move up the value chain for the purposes of penetrating more competitive markets in the future.

Conclusion

The study established that AGOA has enhanced the competiveness of the Kenyan textile industry. Under AGOA Kenya experienced an increase in exports of textiles and clothing. AGOA promotes economic development and advances while also integrating the economies of Africa countries with the globe. Through AGOA the governments, civil society and the private sector work together in building trade capability and expanding business links amid Africa and the US. Trade capacity increase encompasses technical assistance on world trade rules, customs reform and modernization. It is further driven by industry standards and regulations development, enforcement of intellectual property rights and infrastructure transformation. The study concludes that AGOA has also helped many African countries, including Kenya, in creating multiple new jobs and boosting international competitiveness. GSP and AGOA offer duty-free treatment for roughly 6,800 products exported from qualified African countries. As a result of this special trade treatment investment opportunities, business formation, job growth, and economic growth have been felt by both the African states as well as by Americans. These gains will however be swept away once the AGOA treaty is terminated.

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