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INSIDE

The Africa Growth and Opportunity Act (AGOA) is a trading arrangement between the United States of America (USA) and eligible Sub-Saharan countries and is among one of the number of trade arrangements that Kenya is party to that covers issues such as but not limited to trade, investment and cooperation. Kenya's exports to the United States commenced in 2001 with a focus on exports of textiles and apparel. This bulletin gives a review of AGOA, the achievements, challenges and policy options for the future.

The Africa Growth and Opportunity Act, Challenges and Opportunities

By Mary Odongo

Introduction

The Africa Growth and Opportunity Act (AGOA) is a trade agreement put in place by the United States Congress, signed into law on May 18 2000 and is cited under the "The Trade and Development Act of 2000".

This act authorised a new trade and investment policy for Sub-Saharan Africa (SSA) in order to expand trade benefits to the countries in the Caribbean Basin, renew the generalized system of preferences, and reauthorize the trade adjustment assistance programs.

Before AGOA, a number of sub-Saharan African countries had been granted preferential access to the United States market covering a number of tariff lines under the Generalised System of Preferences (GSP). AGOA, in a sense carries on with the GSP, albeit with some differences. GSP provided duty free concessions to least developed countries for over 3000 products that include eligible products such as agricultural and fishery products.

The differences between AGOA and GSP lies in (i) an expanded range of products under preferential access to include textiles and apparel as well as petroleum products (ii) an extended timeframe or coverage for preferential access to the US market.

Since AGOA came into existence, it has been amended a number of times. Table 1 highlights these amendments and the changes brought to the initial act.

[1]Trade and Development Act of 2000, The Africa Growth and Opporurnity Act

Table 1: AGOA Amendments

AGOA Act	Year	Amendments
AGOA	2000	• offers tangible incentives for African countries to continue their efforts to open their economies and build free markets
AGOA II	2002	• expands preferential access for imports from beneficiary Sub-Saharan African countries
AGOA III	2004	Also known as the AGOA acceleration act of 2004: • extends preferential access for imports from beneficiary Sub Saharan African countries until September 30, 2015 • extends third country fabric provision for three years, from September 2004 until September 2007 • provides additional Congressional guidance to the Administration on how to administer the textile provisions of the bill.
AGOA IV	2006	Also known as the African Investment Incentive Act of 2006 • extends the third country fabric provision for an additional five years, from September 2007 until September 2012 • adds an abundant supply provision • designates certain denim articles as being in abundant supply • allows lesser developed beneficiary sub-Saharan African countries export certain textile articles under AGOA

Source:http://www.agoa.gov/agoa_legislation/agoa_legislation.html

2. Eligibility Requirement

According to the Act, the president of the USA authorised to designate SSA country as eligible if he/she determines that the country (1) has established, or is making progress toward establishing: a market based economy that protects private property, the rule of law, elimination of barriers to United States trade

and investment, economic policies to reduce poverty, a system to combat corruption and bribery, and the protection of internationally recognised worker rights. (2) does not engage in activities that undermine United States national security of foreign policy interests (3) does not engage in gross violations of internationally recognised human rights or provide support for acts of international terrorism.

If the president determines that an eligible sub-Saharan African country is not making continual progress in meeting the requirements described above the President can terminate the designation of the country. Kenya was one of the first countries in sub-Saharan Africa to meet the eligibility requirement of the AGOA act and officially became eligible in the 2000.

3. Patterns of Trade between Kenya and the US under AGOA

AGOA and Trade in Kenya

Kenya was one of the first countries in SSA to meet the eligibility requirement of the AGOA

[2]The Africa Growth and Opportunity Act, Trade and Development Act of 2000

act. The bilateral trade profile between the US and Kenya consists mainly of agricultural products, forest products, chemicals and related products, energy products, textiles and apparel, footwear, minerals and metals, machinery, transportation equipment, electronic product, miscellaneous manufactures and

Table 2: Bilateral Trade Profile Between United States and Kenya (All Sectors)

	Value (1000 Dollars)			Year-to-date Jan - Dec	
	2010	2011	2012	2011 YTD	2012 YTD
All Sectors:					
US Exports to Kenya	345023	447393	546546	447393	546546
US Imports from Kenya	311127	380463	389750	380463	389750
Total AGOA including GSP provisions of AGOA	**225491**	**292595**	**292828**	**292595**	**292828**
US imports under GSP from Kenya	4855	4321	5091	4321	5091
US imports of duty-free items added under AGOA	220636	288273	287737	288273	287737

Source:http://www.agoa.info/?view=country_info&=ke&story=trade

special provisions. One of the most important milestones of this agreement has been an increase in trade between the US and Africa. There has been an increase of exports from Kenya to the US. Table 1 shows the bilateral trade profile between Kenya and the US for all sectors between 2010 and 2012. Between 2010 and 2012, Kenya's exports under AGOA increased from US$225 million to US$292 million.

Currently the bulk of Kenya's exports to the US is composed of textile and apparels. The greatest impact made by AGOA can be observed in Kenya's textile and apparel industry and this has been seen in textile exports for the Export Processing Zones (EPZs) . Table three below shows that textile and apparel exports from Kenya to the US increased between 2010 and 2011 to US$200 million but there was a decrease in this traded product in 2012, down to US$ 252 million.

Table 3: Bilateral Trade Profile Between United States and Kenya (Textiles and apparel)

	Value (1000 Dollars)			Year-to-date Jan - Dec	
	2010	2011	2012	2011 YTD	2012 YTD
Textiles and Apparel:					
US Exports to Kenya	16598	16266	23294	16266	23294
US Imports from Kenya	202256	261291	255158	261291	255158
Total AGOA including GSP provisions of AGOA	**200471**	**258964**	**252734**	**258964**	**252734**
US imports under GSP from Kenya	15	42	64	42	64
US imports of duty-free items added under AGOA	200456	258922	252670	258922	252670

Source:http://www.agoa.info/?view=country_info&=ke&story=trade

Table 4 gives an outline of the EPZs structure in Kenya today. Between 2008 and 2012 the number of enterprises operating under the EPZs increased from 77 to 81 enterprises. The number of locals employed in these enterprises increased to 32,516 in 2012 up from 30,187 in 2008.

[3]EPZs are designated economic zones which were created to increase exports as well as attract foreign direct investment

Table 4: Selected EPZ Performance Indicators, 2008-2012

Indicator	Unit	2008	2009	2010	2011	2012
Gazetted Zones	**Number**	**38**	**41**	**42**	**44**	**45**
Enterprises Operating	Number	77	83	75	79	81
Employment -Locals	Number	30,187	30,115	31,026	32,043	32,516
-Expatriates	Number	471	508	476	421	401
Total Workers		**30,658**	**30,623**	**31,502**	**32,464**	**32,917**
Export Sales	Kshs. Million	28,094	23,948	28,998	39,067	41,406
Domestic Sales	Kshs. Million	3,168	2,850	3,350	3,375	6,065
Total Sales		**31,262**	**26,798**	**32,348**	**42,442**	**47,471**
Imports	Kshs. Million	16,348	12,672	16,518	21,443	22,559
Local Purchases of Goods and Services	Kshs. Million	4,476	3,942	4,661	6,297	7,261
Investment	Kshs. Million	21,701	21,507	23,563	26,646	34,064

*Source: Economic Survey 2013, * Provisional*

Table 5 gives a sense of the achievements under the EPZ factories focused solely on garments/apparels. According to the economic survey 2013 employment in these zones decreased from 25,766 to 23,811 due to the delay in the extension of the third country fabric requirement in September 2012 registering negative growth of 5.4 percent (Economic Survey 2013). Also observed is negative growth in capital investment of 9.4 percent

Table 5: Selected EPZ Garment/Apparel Performance Indicators under AGOA, 2007-2012

	2008	2009	2010	2011	2012	% Growth
Number of Enterprises	18	19	16	18	19	5.6
Employment	25,766	24,359	24,114	25,169	23,811	-5.4
Capital Investment (Ksh. Million)	7,578	5,490	6,959	6,858	6,211	-9.4
Exports (Kshs. Million	15,811	12,699	16,190	20,948	22,308	6.5

*Source: Economic Survey 2013, * Provisional*

4. Impact of AGOA on Kenya

Textiles and Apparel

From the above narrative we can see that the bulk of exports to the US under AGOA lie in the textiles and apparels sector. Table 2 shows an increase in the exportation of apparels from Kenya to the US. AGOA has had a positive impact on this sector in terms of volumes traded between the two countries and this sector has made the most visible impact on Kenya as concerns trade between the US and Kenya. With the expiration of the Multi-Fibre Agreement in 2005, Kenya witnessed a dip in the number of textile exports to the US. Linked to the textiles and apparel sector is the "third country fabric" provision which was extended in 2012. This provision allows AGOA beneficiaries to source material from any other country and the extension was particularly important for Kenya because of the inadequate production of fabric. According to the Economic Survey 2013, the delay in the extension of the third country fabric requirement caused direct employment in the textile and apparel to contract by 5.4 percent. There was a decrease in capital investment in this sector as was the case a year ago.

Employment/Job Creation

AGOA has also resulted in the increase of jobs in certain sectors in Kenya with employment increasing in some firms associated with this agreement. Table 3 shows a slight increase in the employment of locals in the export processing zones following a dip in employment between 2008 and 2010. Employment in the textile and apparel sector declined between 2008 and 2010 but could be seen to pick up in 2011. Employment statistics averaged between 2008 and 2012 in this sector recorded a negative growth of -5.4 percent (Economic Survey, 2013). The textiles and apparel sector has also offered a major source of employment to women in the country though a number of these jobs tend to be low skilled. The Africa Women's Entrepreneurship Program (AWEP) set up in 2010 with the objective of linking businesswomen to opportunities that can be taken advantage of under AGOA.

Manufacturing

The manufacturing sector in Kenya contributes approximately 10 percent of Gross Domestic Product (GDP) in Kenya. (Economic Survey, 2013). Manufacturing sub-sectors such as the apparel and textile sector have continued to benefit from the terms of trade accruing from the AGOA agreement. According to the Economic Survey sales from the EPZs increased from 12.0 percent from Ksh. 42.4 billion in 2011 to Kshs. 47.5 billion in 2012.

Investment

Table 4 highlights in part the investment performance under AGOA in the apparel sector. Capital investment decreased from Kshs. 6,959 million to Kshs. 6,211 million between the years 2010 and 2012 leading to a negative growth figure of 1.5 percent. Capital investment statistics averaged between 2008 and 2012 for this sector recorded a negative growth of 9.4 percent (Economic Survey, 2013). The majority of EPZA firms are non-Kenya firms (foreign owners) and this brings in the question of whether some of these firms improve linkages with the Kenyan economy in terms of re-investment. According to the EPZA annual performance report 2012 , this programme has attracted investors from Sri Lanka, India, Taiwan, Dubai, Qatar, Pakistan, Singapore, USA, Canada, UK, Belgium, Germany, Switzerland, Netherlands, Australia, Seychelles, Mauritius, Panama and Tanzania among other countries. A reflection of foreign direct investment can be seen in the number of foreign investors in the EPZs, particularly in the textile and apparel sector.

Agriculture

Though textiles and apparels are the dominant export to the US market other products are also exported. Some of these products such a coffee, tea, nuts and cut flowers have experienced a growth in exports under this trading regime which also showcases a huge potential in these sectors. The agricultural sector holds great potential in terms of increasing the volumes of goods traded with the US. Table 1 makes mention of the AGOA III, the Acceleration Act of 2004. This amendment directs the President of the US to assign personnel for the purpose of providing agricultural technical assistance to select AGOA countries and advising them on improvements in their sanitary and phytosanitary standards to help them meet U.S. requirements. (The Africa Growth and Opportunity Act, Trade and Development Act

[4]http://www.epzkenya.com/index.php/sector-profiles

of 2000). Kenya has been known to take advantage of this clause in the export of agricultural produce to the US.

5. Strategies for AGOA

- There is no doubt that AGOA has resulted in more trade opportunities for Kenyan traders. Many small scale business men and women have been able to take advantage of export opportunities under AGOA. There still remains a large proportion of small scale business persons who would like to take advantage of these opportunities but cannot not do so because of the inability to access credit facilities as well as a general lack of awareness or understanding of the technicalities of this agreement.

- Uncertainty exists about the future of AGOA on whether it will be extended past 2015 when it is due to expire. Initially the duty free preference was supposed to last for eight years but this was extended further. Kenya needs to make use of the period (before 2015) to become more competitive in terms of her exports to the US market as well as becoming more competitive in the textiles and apparels sector.

- Other factors to be considered by policy makers in reference to AGOA are improving regional infrastructure and reducing transportation costs. The theme of the AGOA Forum 2012 was, "Enhancing Africa's Infrastructure for Trade." This forum focused on the infrastructural development needs of countries in Sub-Saharan Africa with the view of improving trade within the region. Without improved infrastructure and its various interconnections throughout the SSA countries, trade and investment will grow minimally.

- Great opportunities exist in the region, specifically within the East African Community (EAC) in terms of creating market linkages. The development of regional value chains is critical to Kenya's utilization of AGOA as well as for intra African trade through the import and export of products needed for specific sectors such as the textile and apparel sector in Kenya. This is made possible through the AGOA "rules of origin" provision.

- There are a number of barriers that women face in terms of participation in economic development.

The Africa Women Entrepreneurship Programme (AWEP), was launched in July 2010 at the US/SSA Trade and Economic Co-operation Forum AWEP seeks to equip African businesswomen with the tools and opportunities to accelerate the growth of their businesses, become leaders in their communities and drive social and economic progress in Africa. Some of the challenges they face include the lack of export information, savings and investments as well as capacity and knowledge of the gender dimension of trade.

- The impact of AGOA on the Kenyan economy would be greater if there was increased diversification of exports to the US market. There are currently around 7000 product lines under AGOA/GSP. Currently, our main export products consist of textiles and apparels, coffee, nuts and cut flowers. Under the AGOA scheme Kenya relies heavily on apparels and textiles and it is clear that we cannot continue to rely on this solely for the bulk of export to the US market.

- Standards are a prominent feature in most trade agreements and the AGOA agreement is no different. Kenya should continue to make use of the clause mentioned under AGOA III, The Acceleration Act of 2004. To meet food safety standards heavy investments should be made in food safety, animal health and plant health in order that producers in Kenya meet the sanitary and phytosanitary requirements.

Conclusion

The AGOA agreement and its subsequent legislations were enacted with the hope of achieving certain milestones such as increased trade and investment between the US and SSA, reducing tariff and non tariff barriers and other obstacles to SSA and US trade and strengthening and expanding the private sector in SSA with a focus on enterprises owned by women and small businesses. This list is by no means exhaustive but gives a focus on the importance of this agreement for Kenya. Kenya currently still faces a number of challenges with AGOA but along with this come numerous opportunities which can be taken advantage of with the right policies.

[5]http://www.awepkenya.org/

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The Trade Information Programme aims to be an influential actor in Kenya's trade negotiations, policy formulation, reforms and impact assessment.

1st Ngong Avenue
5th Floor, ACK Garden House
P.O. Box 53989 - 00200, Nairobi, Kenya
Tel: 2721262, 2717402, Fax: 2716231
Email: admin@ieakenya.or.ke
Webpage: www.ieakenya.or.ke

Written by:
Mary Odongo

Editor:
Zilper Audi

Design & Layout:
Oscar Ochieng

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