Has Namibia Benefited From AGOA?

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THE seventh AGOA summit was held in Accra, Ghana, in July 2007.

This summit brought together business people and government officials from all over Africa and the United States.

The discussion at the summit revealed that despite having been in existence for seven years, many African countries have not fully benefited from AGOA.

A garment manufacturer from Accra indicated that despite having been exposed to the US buyers through AGOA, they are still struggling to compete with Chinese prices.

Our President shared this sentiment recently.

In his speech, President Pohamba stated: "AGOA has not yielded the desired results as far as American investment is concerned despite the incentives provided by African governments to potential investments" (The Namibian: 19.11.2007).

This article attempts to provide an insight on AGOA and the reasons why African countries have not fully benefited from this policy.

BACKGROUND ON AGOA

The United States of America introduced the African Growth and Opportunity Act (AGOA) in 2000 with the intention of maximising trade between the US and selected sub-Saharan African (SSA) countries.

AGOA aimed at developing the textile industry in SSA countries which has the potential to contribute positively to employment creation due to its labour intensive nature.

Unlike other trade agreements that are bilateral, AGOA is a unilateral trade preference agreement decided upon by the United States and targeting SSA countries.

Under AGOA, the President of the United States is accorded the right to cease the status of a SSA country that does not meet the requirements set out under AGOA.

Only eligible sub-Saharan African (SSA) countries that meet certain requirements outlined in the Act can benefit from AGOA.

The act makes provision for certain goods from eligible SSA countries to enter the United States duty free and quota free.

The introduction of AGOA led to increased trade between the USA and the SSA countries.

However, the increase in trade was not experienced at the same level in all SSA countries and did not affect all goods equally.

For instance, trade statistics show that countries that experienced substantial growth in trade are Nigeria, Angola, South Africa, Gabon and Chad.

Furthermore, products dominating trade between United States and SSA countries are natural resources and primary products.

Overall, petroleum products account for more the 90 per cent of all African exports to the United States.

In other SSA countries such as Swaziland, Lesotho and Malawi, AGOA led to the development of textile industries.

Despite the significant growth experienced by the above-mentioned countries, total exports to the US from African countries are still dominated by petroleum products.

NAMIBIA AND AGOA

Namibia became a beneficiary country in 2001 and qualified for the 'special rule' provision on apparel articles which allows lesser developed SSA countries to source their raw materials from anywhere in the world.

Only countries that are classified as "lesser-developed countries" on the basis that their GDP per capita does not exceed US$1 500 can benefit from this provision.

This provision is not permanent but has been extended to 2015.

Under AGOA, Namibia was to benefit in the following ways: * Increased exports to the US due to free market access and absence of limitations on exports * Increased employment opportunities through investment; and * Creation of infrastructure in the textile and garment industry The LaRRI study of 2007 revealed that that Ramatex is currently the only company that is exporting to the USA under AGOA and thus, the only AGOA beneficiary in Namibia.

Before, 2001, Namibia did not have a developed textile and apparel industry but this changed with the introduction of AGOA coupled with many government concessions, which largely influenced the Ramatex company decision to invest in Namibia.

Ramatex is by far the largest textile factory in Namibia and was expected to create about 8 000 jobs, a reason which was used to justify the incentives offered to Ramatex.

A LaRRI study carried out in 2003 revealed that in 2002/03 there were 6 000 jobs but this number has now declined to only 3 600 following retrenchments in 2005 and 2006. There are many reasons why Ramatex is the only company exporting to the US under AGOA.

Firstly, Ramatex is a big well-established Multinational Corporation whose operations are fully integrated.

Thus Ramatex has the equipment, manpower, already established business contacts and experience to meet the requirements and demands of big US retailers.

Namibian textile manufacturers on the other hand operate on a small scale and do not have established business contacts in the US, equipment and manpower necessary to allow them to fully utilise the opportunities presented under AGOA.

Another challenge that faces Namibian textile and garment manufacturers is the costs involved in shipping products to the United States due to the lack of a direct shipment between Namibia and the US.

Thus all exports to the US have to go through South Africa.

Some Namibian exporters to the US in Namibia indicated that AGOA has no relevance for their exports and thus does not affect their business.

In Namibia, products that dominate exports to the US are metals, minerals, textiles and apparel.

The highest overall exports of US$238 219 million were recorded in 2004 and dropped significantly to US$129 557 million in 2005.

This could be largely due to the reduction in exports in textiles experienced in many SSA countries, including Namibia.

For instance, many textile-producing SSA countries experienced a decrease in their textile exports and subsequently company closures, which led to loss of thousands of jobs.

In Namibia alone, about 1 600 jobs were lost when one of Ramatex's subsidiaries (Rhino Garments) closed down in 2005.

The main reasons for the reduction in textile exports is the end of the Multi Fire Agreement (MFA) at the beginning of 2005 coupled with the "Chinese attraction" as an investment option.

The effects of the end MFA were acute as it was the introduction of the MFA that had led to the development of textile and clothing industries in many developing countries, which were not affected by quota restrictions.

Thus the end of the MFA meant that quota or quantity restrictions that had been placed on certain products (mostly textile) from Asian countries were no longer applicable.

This meant that textile producers could produce from anywhere in Asia without facing any quota restrictions when exporting to the US.

This resulted in China becoming an attractive country for textile investors as it offered the opportunity for companies to significantly lower their production costs.

Thus many textile companies closed their factories in SSA countries (who are beneficiaries of AGOA) and opened new ones in China and other Asian countries.

Thus the success and impact of AGOA has been very limited due to the external (global) and internal challenges faced by local businesses.

CONCLUSION

AGOA's ability to stimulate investment in Namibia has not yielded the expected results.

To date, Ramatex is the only investment that is attributable to AGOA.

Many local businesses (textile and garment manufacturers) have been unable to benefit from AGOA due to various challenges.

Market access alone as provided for under AGOA is not enough to allow local businesses to benefit from AGOA.

Thus AGOA in its current form cannot and does not benefit SMEs or local businesses, but rather is aimed at benefiting large Multinational Corporations.

Thus, there is a need to support the local initiatives such as the Namibia Garment Marketing Company, which promotes local garments manufacturers.

The AGOA policy targets the textile and clothing industry and thus provides for preferences for many of its products.

This has positive and negative implications.

The positive implication is that this sector requires little start-up capital and is labour intensive and thus has the potential to alleviate unemployment.

On the other hand, this industry has been referred to as being "footloose" because companies operating in the textile and clothing industry tend to relocate their operations quite easily.

Furthermore, infrastructural incentives provided by host governments re-enforce this trend, as investments in infrastructure by businesses themselves would force them to stay longer in one location in order to recover their investment.

A case in point is Ramatex, which shut down parts of its operations after less than four years in Namibia.

The infrastructural incentives provided by the Namibian government meant that the company has very little immovable property in Namibia, making it very easy for it to relocate to a more favourable location with ease.

Thus the practice of providing infrastructure to foreign investors is neither suitable nor sustainable to promote long-term industrialisation.

The anticipated number of jobs which were to be created by Ramatex, have not been realised.

LaRRI (2007) revealed that currently the Ramatex factory employs about 3 600 workers after having reached a peak of approximately 6 000 workers in 2003-04.

The reduction in jobs could be mainly due to the closure of Rhino Garments in 2005, which was linked to the end of the MFA and the company's plans to relocate to China.

Thus, if employment trends are anything to go by, one can conclude that Ramatex's future in Namibia is uncertain.

International experiences in many developing countries have shown that an industrialisation strategy that is based on the goodwill of foreign investors, coupled with repressive labour conditions and environmental degradation cannot lead to sustainable development.

Thus, one can conclude that the Ramatex investment in Namibia as the only AGOA investment in Namibia will not enhance the country's socio-economic development.

The only way the Namibian textile and clothing industry can benefit from AGOA is to strengthen the local manufacturers through incentives and protection while they are in their infancy stages, a strategy adopted by virtually all industrialised countries, including those of South-East Asia.

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