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AGOA a Step Forward for Development? Insights into the Textile Sectors of Lesotho and Namibia

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A Research report submitted to the Faculty of Humanities, University of Witwatersrand, Johannesburg, in partial fulfillment of requirements for the degree of Masters of Arts.

Johannesburg, 2010

DECLARATION

I declare that this thesis is my own unaided work. It is submitted for the degree of Masters of Arts, at the University of Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination in any other University.

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Sada Mary Vlok

24th May 2010

ABSTRACT

This paper analyses the African Growth and Opportunity Act (AGOA) and the development aspects of the agreement. The aims and challenges of the agreement are explored specifically in the textile industry of both Lesotho and Namibia. This agreement has been scrutinized within the global economy today. Therefore the research project has outlined the theoretical and economic context in which AGOA is situated. The paper aims to show whether or not AGOA is a step forward in the development of both these countries and implies whether or not the agreement helps develop Less Developed Countries (LDCs) on the whole. The overall conclusion of AGOA and its link to economic growth (specifically to the textile industry) is that while the agreement is sound theoretically, it lacks the proper legislation and implementation to fully develop African countries. This leaves these countries stuck in the poverty trap and developed countries benefitting. While outlining the problems of AGOA, suggestions have been made for solutions that may lead to sustainable growth of LDCs and the AGOA agreement. These include a change in legislature, opening of dialogue, strong institutions to control the implementation and a monitoring and review system.

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ABBREVIATIONS:

AGOA	African Growth and Opportunity Act
AU	African Union
BIT	Bilateral Investment Treaties
CMA	Common Monetary Area
EPZ	Export Processing Zone
ESCWA	United Nation's Economic and Social Commission for Western Asia
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalised System of Preferences
HDI	Human Development Index
ICTSD	International Centre for Trade and Sustainable Development
IMF	International Monetary Fund
LARRI	Labour Research and Resource Institute
LDC	Less Developed Country
LECAWU	Lesotho's Clothing and Allied Workers' Union
MCC	Millennium Challenge Corporation
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
MNC	Multi-National Corporation
NGMC	Namibia Garment and Market Company
OTEXA	Office of Textile and Apparel
SACU	Southern African Customs Union
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
SWAPO	South West Africa People's Organisation
TIRI	Trade Tariff Restrictiveness Index
TRALAC	Trade Law Centre for Southern Africa
UN	United Nations

UNCTAD	United Nations Conference on Trade and Development
US	United States
USITIC	United States International Trade Commission
WTO	World Trade Organisation

Chapter 1: Introduction

1.1: Setting the Scene

In recent years the relationship between the developed and the developing countries has shifted focus from the colonial days[1]. There has been a move from bilateral trade between developing countries and developed countries towards multilateral trade of all countries. Globalization has altered the competitive dynamics of nations, firms, and industries[2]. According to Gereffi, who has done extensive work on the new globalising world (see Gereffi, G., 1995 and Gereffi, G., 1997), this is most clearly seen in the changing patterns of international trade .It is here where the explosive growth of imports in developed countries indicates that the centre of gravity for the production and export of many manufactures has moved to an ever expanding array of newly industrializing economies (NIEs) in the Third World[3].

According to the International Monetary Fund (IMF), Africa contributes only 2% of the world trade[4]. There are many factors that contribute to this. These include the lack of skills, infrastructure, the marketing of the products that are produced in terms of pricing structure, product demand, promotion of products and the correct places to market. I have looked at these aspects in more depth, thereby ascertaining these as some of the many reasons why Africa contributes only 2% to the World Trade. In terms of World Trade, this makes Africa the poorest continent in the world. According to the World Bank, African countries are less integrated with world capital markets than most other regions[5]. It was also reported by the World Bank that

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[1] Chang, H. Policy Space in Historical Perspective: With special reference to Trade and Industrial Policies. http://74.6.239.67/search/cache?ei=UTF-8&p=relationship+between+developing+world+and+developed+world+since+colonial+days&fr=chr-flv&u=ase.tufts.edu/gdae/about_us/Chang_remarks.pdf&w=relationship+between+developing+development+world+developed+developing+development+world+since+colonial+days&d=UHy0D0LURxCj&icp=1&.intl=us. Accessed on 12 October 08.

[2] Gary Gereffi: International trade and industrial upgrading in the apparel commodity chain, Journal of International Economics 48 (1999) pp 37–70

[3] Ibid pg 37

[4] International Monetary Fund: Regional Economic Outlook: Sub-Saharan Africa, International Monetary Fund, Publication, World economic and financial surveys, Washington, D.C., April 2007

[5] The World Bank official site: Africa Region Sources of Data, http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:20140311~pagePK:146736~piPK:146830~theSitePK:258644,00.html accessed 2008-11-25

Africa's real income averaged one-third less than in South Asia, reiterating the fact that Africa remains the poorest region in the world[6].

The development and the diversification of African countries have become important in ensuring the survival of the African continent. Most African countries are small economies in terms of skill, technology and infrastructure, thus lacking the capacity to compete with economic giants such as China and the United States. The challenges facing the developing regions such as Africa are: low levels of living (characterized by low incomes, inequality, poor health and inadequate education); low levels of productivity; high rates of population growth and dependency burdens; substantial dependence on agricultural production and primary product exports; prevalence of imperfect markets and limited information and finally dominance, dependence and vulnerability in international relations[7]. This, combined with the fact that most imports/exports are subject to both tariffs and import taxes, leaves Africa trailing behind in terms of trade and development. A new international economic order in the 1970s[8] was therefore needed. In order to find solutions to this problem, it has become vital that the continent of Africa is studied in the context of the new economic order. This will provide a basis for institutions, such as the World Bank and IMF on what exactly needs to be done in order to help Africa's development.

According to the U.S. government, the African Growth and Opportunity Act (AGOA), being one of these unilateral agreements, is said to play a key role in the driver of trade and investment. AGOA is seen by the United States as the cornerstone of the Bush Administration's trade and investment policy toward sub-Saharan Africa, which promotes free markets, expanding U.S.-African trade and investment, stimulating economic growth and facilitating sub-Saharan Africa's integration into the global economy[9]. I will look at how the AGOA agreement is structured in terms of the

[6] Ibid pg 1
[7] Todaro, M and Smith, S: Economic Development: eighth edition, Pearson Education Ltd, England, 2003
[8] John Gerard Ruggie, International regimes, transactions, and change: embedded liberalism in the post-war economic order, International Organisation Volume 36, Issue 2, International Regimes (Spring, 1982), pp 379-415.
[9] A Report Submitted by the President of the United States to the United States Congress Prepared by the Office of the United States Trade Representative Zoellick: 2003 COMPREHENSIVE REPORT ON U.S. TRADE AND INVESTMENT POLICY TOWARD SUB-SAHARAN AFRICA AND

markets in the textile agreements in Namibia and Lesotho. Suggestions will be given as to how this agreement can be made more beneficial to these two industries. Whether or not this agreement ultimately falls in line with the developmental needs of LDCs will also be esplored.

AGOA is unique in its provisions compared to the standard GSP program (that provides preferential duty-free entry for about 4,800 products from 131 beneficiary countries), The reason is that it firstly covers additional 1,800 tariff line items that include certain previously excluded items with significant importance for developing countries (such as apparel, footwear, handbags and luggage).[10] Incorporating many changes, such as the inclusion of apparel in the preference list and the elimination of rules of origin requirements for most beneficiaries, makes AGOA distinctive as opposed to other similar agreements, such as the "Everything but Arms" agreement.[11] Although this research paper explores the AGOA agreement as a whole, the textile industry which only accounts for 4.7% of U.S markets in 2001, with its biggest year of trade under AGOA being 2004 ($1620735 million-US Dollars) and dropping in 2008 ($1.138837 million-US Dollars), is focused on within this research project.

AGOA is intended to expand the African market of textile and apparel goods into the United States. The eligibility criterion, which is explored in greater detail in chapter 4, of the AGOA program was established in order to help African countries move towards better labour rights and market-based economies. These were aimed at awarding opportunities to countries that may not be able to create their own, thus uplifting their economies with the increase of Direct Foreign Investment, whereby sectors that were unchartered would now evolve. More job opportunities is said to have been created and multi-national corporations could take advantage of this agreement by investing more and stimulate economic growth in these countries. This is a theoretical example of how disadvantaged countries could improve the quality of their economies.

IMPLEMENTATION OF THE AFRICAN GROWTH AND OPPORTUNITY ACT**,** The Third of eight annual reports, May 2003, pp1-133

[10] Loc cit

[11] Ozen, C and Olarreaga, M: AGOA and Apparel: Who Captures the tariff rent in the presence of Preferential Market Access?, Development Research Group, World Bank , 2004

1.2: Aim

This research paper aims to investigate the effectiveness of the AGOA agreements as developmental tools, past and present. Firstly, the thesis investigates the AGOA agreement in terms of the textile and apparel industry, specifically in Lesotho and Namibia. Secondly, I examine the underlying mechanisms of the agreement, looking at the shortfalls and limitations, as well as, its strong principles. Conclusions will then be drawn. These will be based on facts such as levels of increased FDI, creation of jobs, export increases and structural improvements such as infrastructure within the textile and apparel sector, that have been studied by me, in order to ascertain whether or not this agreement has actually helped economic development in this sector in these respective countries.

The AGOA agreement however, will expire in 2012. This will result in the notion of sustaining development within the textile industry maybe not materialising. A more detailed examination of this notion will occur the investigation of the case studies The textile industry is not the only product under the AGOA agreement, thus there are constraints regarding the diversification of products. This research paper will therefore examine exclusively the diversification of the industry itself, rather than the expansion into other products as such. It is important to note that this research paper looks at the AGOA agreement exclusively and not the African governments' lack of spending' profits on developing their nations (as the methodology for this will be difficult to define, find and analyze).

1.3: Key research questions

In order to guide this research, the key research question that will be asked is: To what extent does AGOA actually help develop these economies and create the necessary boost to kick start economic development of its beneficiary countries? Africa is still seen as the poorest region in the world despite the fact that AGOA has been in place since 2000 (8 years). However, as this key research question is difficult to measure, other research questions will be used to support this key question in order to establish whether AGOA is a step forward in development. "Has AGOA helped to really increase FDI? To what extent has this agreement created jobs and what is the

quality of those jobs? Has there been an increase in textile exports from Africa to the United States? Has AGOA helped to diversify the textile sector? Has there been a spill-over effect in terms of skills and technology development? ” These questions will help to answer the key research question as they all contribute to the measurement of economic growth. Linked to these questions will be the question as to whether or not Lesotho and Namibia's economies are ready to deliver on what is expected of them within the agreement in terms of strong infrastructure, developed skills and strong institutions that will help with success of AGOA. Their overall performance in terms of what they have actually achieved due to the AGOA agreement will be asked.

1.4: Literature Review

General literature on AGOA has fallen into three categories. Firstly, there are authors that see AGOA as a developmental tool as a whole. Authors such as Carol Thompson look at the AGOA agreement in terms of Free Trade Theory and how this differs from the reality of the situation within Africa.[12] She pays close attention to how Free Trade, in theory and in practice, does not raise the issue of equity. The AGOA agreement and its limitations have been explored by her. She argues that AGOA has not impacted on the Marco-economies of African countries in a positive manner nor has it brought any meaningful change in the economic conditions of the workers.[13] However, while Carol Thompson has looked at the AGOA trade agreement as a whole, she has not looked at any specific case study in order to fully explore the trade and development between the regions, thereby leaving a gap in the literature.

The second category is the authors that have looked at AGOA within the textile industry in Africa not specific to one or two countries. According to Ozen and Olarreaga, the United States grants preferential (tariff and quota free) market access to a list of products from eligible countries in sub-Saharan Africa through the African Growth and Opportunity Act (AGOA)[14]. They have analyzed the increase in prices

[12] Thompson, C: Decade of 'Trade Not Aid', *Review of African Political Economy*, Vol. 30, No. 96, War & the Forgotten Continent (Jun., 2003)
[13] Ibid pg 2
[14] Marcelo Olarreaga & Caglar Ozden: AGOA and Apparel: Who Captures the Tariff Rent in the Presence of Preferential Market Access? The World Economy, Blackwell Synergy August 2004

received by apparel exporters who benefited from AGOA preferences[15]. Ozen and Olarreaga have established that the main impact of AGOA has been on the apparel exports and only seven of the countries have really benefited[16]. These seven countries, namely Kenya, Lesotho, Madagascar, Malawi, Swaziland, Mauritius and South Africa have increased their exports significantly in a short period of time and the growth is even more remarkable for the five that are completely exempt from rules of origin[17]. What is interesting to note with Ozen et al's article is the fact that besides South Africa (which already has an established textile industry) and Kenya, the authors have focussed on small economies such as Malawi and Swaziland, which may only have one or two industries that are the focus in these economies. This is a narrow view of looking at the AGOA agreement as bigger economies such as Namibia and Botswana have not been explored.

The last category of literature falls into authors that have focussed on a specific country. Authors such as Labour Research and Resource Institute (LaRRI) Researcher Ntwala Mwilima and Herbert Jauch looked at the AGOA trade agreement specifically in Namibia. They claimed that with the introduction of the AGOA agreement, together with many government concessions, a textile and apparel industry has been developed in Namibia[18]. Market access alone, as provided for under AGOA, they have argued, has not been enough to allow local businesses to benefit from AGOA[19]. The conclusions that they have made is, that while AGOA has had some success, there needs to be certain changes in order for Namibia to fully benefit from the AGOA agreement. While Ntwala Mwilima and Herbert Jauch looked at a specific case study (Namibia), they have fallen short of defining a theory or definition behind region to region co-operation.

While all literature above is relevant and will be used, it is the combination of these that has left a gap in literature and has provided a rationale for this research paper. International trade has now shifted towards developing countries signing bilateral investment treaties (BIT) such as AGOA in order to attract Foreign Direct

[15] Ibid pg 1
[16] Ibid pg 15
[17] Loc cit
[18] Mwilima, N, Has Namibia benefited from AGOA? The Namibian newspaper, Dec 2007 www.namibian.com.na/2007/December/columns/07D3A615
[19] Ibid pg 6

Investment[20]. In fact, according to Elkins, Guzman and Simmons, BITs have become 'the most important international legal mechanism for the encouragement and governance' of FDI[21]. The literature up until now has not really focused on FDI in the textile and apparel industry or if it has, it has been limited to one country. This research paper aims to deliver a new angle so as to fully explore the role AGOA has had on the economic development of the Textile and Apparel Industries in Namibia and Lesotho. The scope of the overall AGOA agreement has been investigated. Research on Namibia, however has not been fully explored. There is therefore, a lesser understanding of the role that AGOA has played in this country. Although Lesotho has been researched by authors such as Peter Gibbson, its economy is very similar to that of Namibia. Both countries are part of SACU and still rely on South Africa. It was therefore felt to include it would firstly, make the findings and conclusions of this study more valid and secondly, would provide an opportunity for an element of comparative nature in regards to the overall impact of AGOA.

By looking at rises in exports, infrastructure, FDI and employment as growth indicators, this study will help to establish the extent of economic development AGOA has created in the textile industry in these two countries. By looking in depth at the pros and cons of the AGOA agreement in this respect, I aim to bring another perspective to aid policy makers in ascertaining which aspects of the agreement are working and where precisely the pitfalls seem to be. This research paper aims to help the respective governments (both north and South) correct these problems and through this poverty in the African region will hopefully be alleviated. It also aims to aid these countries in applying the correct policies.

1.5: Theoretical Background

Most countries in the global community follow the liberal Free Trade Theory in terms of their economy. For this reason a key principle within the theory, namely the Principle of Comparative Advantage is discussed[22]. According to authors such as Paul

[20] Neumayer, E & Spess, L: Do bilateral investment treaties increase Foreign Direct Investment in developing countries? World Development, Vol.33, No.10, Elsevier Ltd, 2005. pp 1567-1585
[21] Elkins, Z; Guzman, A & Simmons, B: Competing for Capital: The diffusion of bilateral investment treaties 1960-2000, working paper, University of Illinois, University of California at Berkeley and Harvard University, 2004
[22] Roberts, P: The missing case for free trade, http://www.vdare.com/roberts/missing_case.htm 12 November 2008

Roberts, for comparative advantage to operate, two conditions are required: (1) a country's factors of production must seek comparative advantage within the country and not move to absolute advantage abroad, and (2) countries must have different relative costs of producing different goods. International Finance Institutions such as the World Trade Organisation (WTO) and International Monetary Fund (IMF) argue that trade liberalization is a key stepping stone to development and that the creation of new jobs, more foreign investment, and increased access to foreign markets will bridge the gap between the developed and developing world.

This paper uses the theory of Free Trade to create a foundation for the analysis of AGOA. Free Trade theory is founded on the principles of free right of entry to markets and market information; the inability of firms to alter markets through government-imposed monopoly or oligopoly power; the free transfer of labour between and within countries and the free interchange of capital between and within states[23]. A key concept of this theory is the fact that trade is an important stimulator of growth, as it enlarges a country's consumption capacities, increases world output and provides access to scarce resources[24]. Trade tends to promote greater international and domestic equality by equalising factor prices and raising real incomes of trading countries[25]. This theory stresses that in order to promote growth and development, an outward international policy is required[26]. Self reliance based on partial or complete isolation is asserted to be economically inferior to participation in a world of unlimited free trade[27]. In chapter 2, this theory will be investigated and explored in correlation to AGOA. The developmental aspects of AGOA will be established as well as the importance of Foreign Direct Investment as a tool for economic growth.

As the topic pertains to the economic development of the textile industry in the specific countries, key concepts such as economic development and diversification will be defined and explained in order to answer the proposed question. Economic development is not solely based on Gross Domestic Product (GDP) any longer. It now

[23] AC Mulligan, Rod Hay and Tony Brewer, David Ricardo and Comparative Advantage, http://iang.org/free_banking/david.html
[24] Tordaro, M: op cit pg 531
[25] Ibid pg 532
[26] Loc cit
[27] Loc cit

incorporates human development, which is measured by the Human Development Index (HDI)[28]. Therefore, HDI is defined and explored in chapter 2. These concepts provide us with a base of what we are looking for in terms of whether or not the AGOA agreement has brought about economic development and diversification to Namibia and Lesotho. However, it is important to note the role of government within the African nations and their management of the AGOA agreement. AGOA agreement within a vacuum. Investments in the relevant sectors, employment rates and export volumes will therefore be explored so as to establish the impact the AGOA agreement has had on economic development. This will provide the research paper with a solid theoretical foundation with to work thereby allowing us to move onto the methodology that will be used to answer this research question.

1.6: Methodology

The research project is focuses specifically on the Textile and Apparel Industry within Namibia and Lesotho. This has made the data collection and analysis more viable, as one is able to establish how this particular industry has been affected by the rise and falls of the sector within the AGOA agreement. These two countries have been chosen for the following reasons: both countries still rely heavily on South Africa (in terms of trade and the use of transport facilities); both have similar economies regarding their size within the textile industries (neither had a solid textile industry before AGOA) and similar GDP's. The successes and failures of the AGOA agreement implemented in these countries should therefore, theoretically be similar.

Measuring the economic growth or development of a country is difficult as an entire unit in itself. This research paper instead focuses on indicators of development within the textile industry. Four main indicators of growth since the implementation of the AGOA agreement within of these countries' textile industry will be explored. The first indicator to be examined is the increase or decrease of exports. In both case studies I have looked at the increase / decrease of textile exports in each country since the establishment of the AGOA agreement. The percentage of textile exports that

[28] Human Development Report 2007/2008: Namibia, the Human Development Index-Going beyond income. http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_NAM.html

now fall under the AGOA umbrella out of the total number of textile exports from the specific country will be included. The second growth indicator that will be investigated is that of an increase / decrease of employment. The study focuses on how the AGOA agreement has helped / not helped create employment in the textile industries. It will look at the increase / decrease of employment indicators since AGOA in each case study specific to the industry. This will include not only the number of jobs that were created but the type of jobs. It will investigate the creation of skilled jobs that will eventually lead to sustainable growth (key concepts such as sustainable development is focused on in chapter two).

The third indicator is how AGOA has stimulated / not stimulated an investment in infrastructure within the case studies. It will explore whether or not the investment in infrastructure (if there is one) has been focused in the textile industry or the country as a whole. The last indicator that will be investigated is the ability of the AGOA agreement in creating an increase in Foreign Direct Investment (FDI). The paper will investigate FDI indicators primarily in the textile industry since the establishment of AGOA. This will be linked to the main origin (area) of the FDI and whether or not this has had an effect on the success of AGOA. Smaller indicators and concepts that have helped establish the overall success of AGOA in achieving its aims are namely, production costs of the textiles in these countries as well as the role the Multi-Fibre Agreement has had in the overall success / failure of the agreement.

This research paper is primarily qualitative in nature as it uses a case study approach and comparison in the form of the AGOA agreement between two case studies namely, the Namibian textile industry and the Lesotho textile industry. A case study approach is a qualitative/quantitative research approach that involves the collection of detailed exploratory information about a particular subject[29]. As a form of qualitative descriptive research, the case study looks intensely at an individual or small participant pool, drawing conclusions only about that participant or group and only in that specific context. The quantitative aspect of the study involves the statistics that have been collected and analysed, giving the report a balanced approach as a qualitative and quantitative study. The data collection of this is primarily secondary

[29] Mike Palmquist of Colorado State University. Case Study: Introduction and Definition. http://writing.colostate.edu/guides/research/casestudy/pop2a.cfm. Accessed on 12 November 08.

sources in the form of articles and books from leading authors on the topic such as Carol Thompson and Peter Gibbon[30]. These secondary sources will correspond with the data obtained in order to analyse the research question.

1.7: Outline of Chapters

The structure and roadmap of the research paper will explore the theoretical framework of the key concepts including the main theory of Fee Trade How this fits into the topic that is being investigated will be provided, thereby creating a solid theoretical framework in which to base the research upon. North-South Relations, globalisation and LDCs will be investigated and corroborate the need for agreements such as AGOA today. The analysis will move on to the aim of the AGOA agreement pertaining towards economic development and FDI flows. By exploring this aspect, the research paper will have explained the purpose of the AGOA agreement within the global community and its importance. The AGOA agreement is be explored and explained, wholly whilst including the perspectives of both regions involved in AGOA. Chapter 5 will investigate AGOA specifically in the textile industry, providing the reader with an overview of the agreement. This will enable them to fully comprehend the agreement and its principles before it is analysed. The use of methodology and statistics will then help to explore the role the AGOA agreement has had in the two countries' textile industries, first Namibia, then Lesotho. This analysis of development indicators will determine whether or not the AGOA agreement has been a success. Finally, all the chapters will be collated by me in order to answer the research question and provide insights, solutions and recommendations. The research paper is concluded in the final chapter.

[30] Gibbon, P: AGOA, Lesotho's "clothing Miracle" and the politics of sweatshops, Review of African Political Economy, Vol.30, No.96, War and the forgotten continent, June 2003; Thompson, C: US Trade with Africa: African Growth and Opportunity? Review of African Political Economy, Vol.31, No.101, An African Scramble? Sep 2004

Chapter 2: Analytical Framework

The first key concept that will be discussed is economic development. Economic development is defined as the qualitative measure of progress in an economy[31]. It refers to the advancement and adoption of new technologies and a move from the primary sector to a more industry based sector and the general improvement of living standards in the country[32]. Economic development is not solely based on GDP any longer, but rather on an increase in foreign exchange earnings, trade balance and employment levels.

Foreign exchange earnings refer to the proceeds from the export of goods and services of a country, and the returns from its foreign investments, denominated in convertible currencies[33]. A primary benefit of foreign exchange earnings is that companies and countries are not exclusively dependent on domestic consumption[34]. Earning profits in foreign countries helps them diversify risks and expand opportunities. Trade agreements such as AGOA provide a developed and established foreign market for exports coming from Africa. Developing countries need to obtain foreign exchange in addition to domestic savings in order to finance priority development projects[35]. This research paper looks at increases of foreign exchange earnings as a result of AGOA to establish the impact the agreement has had on the economic development of the textile sectors of Lesotho and Namibia.

Trade Balance within economic development refers to the difference between the monetary value of exports and imports of output in an economy over a certain period[36]. A balance of trade is known as a trade surplus if it consists of exporting more than is imported; otherwise it is called a trade deficit or, informally, a trade gap[37]. Usually a trade surplus equates to a savings surplus. As mentioned above

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[31] Business Dictionary: Definition: Economic Development, Online Dictionary, March 2009 http://www.businessdictionary.com/definition/economic-development.html
[32] Loc cit
[33] BNET: Business Definition of Foreign Exchange Earnings, Online Business Dictionary, CBS Interactive, May 2010. http://www.businessdictionary.com/definition/foreign-exchange-earnings.html
[34] Todaro, M and Smith, S: op cit pg 68
[35] Loc cit
[36] Sullivan, Arthur and Steven M. Sheffrin (2003). *Economics: Principles in action*. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall.
[37] Ibid pg 462

domestic savings with foreign exchange earnings are needed to finance development projects. An increase in exports will therefore close the trade gap and increase savings leading to an increase in GDP growth. Trade agreements such as AGOA allow for the possibility of an increase in exports thus an increase in trade balance. The other contribution and implication to GDP growth is the increase or decrease in employment levels. Employment levels in companies contribute to GDP growth. The more labour intensive a company is, the greater the decrease in poverty is in that country. This will equate to an increase in development and a decrease in income inequality.

GDP growth now incorporates human development, which is measured by the Human Development Index (HDI)[38]. The HDI provides a composite measure of three dimensions of human development, which are: life expectancy, a decent standard of living (measured by purchasing power parity) and education (measured by adult literacy and enrolment at the primary, secondary and tertiary level)[39]. In 2005 Namibia's HDI value was 0.65 which gave the country a rank of 125th out of 177 countries with data[40]. The Lesotho economy has had a lower HDI value compared to Namibia. In 2006 Lesotho's HDI value was 0.496, which ranked 103rd among 135 developing countries for which the index had been calculated[41]. Namibia's GDP has been growing at around 3% on average since 1996[42]. Lesotho's GDP has been growing at an average of 4.04% annually from 2002 onwards[43]. However this steady growth of GDP may not be attributed directly to AGOA agreement. It will be explored as to what extent the agreement has played a role further on in the research project. For the purposes of this study, economic development encompasses all of the above. Thus this research paper will measure economic development as not only an increase of GDP but an all round increased HDI value within the two case studies. An advancement of education or skills development, the eradication of poverty within the

[38] Human Development Report 2007/2008: Namibia, the Human Development Index-Going beyond income. http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_NAM.html
[39] Ibid. pg1
[40] Loc cit
[41] UNPD: Lesotho: The Human Development Index: going beyond income, Human Development Report 2007/2008 http://hdrstats.undp.org/es/2008/countries/country_fact_sheets/cty_fs_LSO.html
[42] Oliver Kleine, Namibia: towards the fourth world, Kingston University, 2004 http://www.hausarbeiten.de/faecher/vorschau/108744.html
[43]Nation Master: GDP: Real Growth Rate: Lesotho, CIA world Factbooks 2003-2008, http://www.nationmaster.com/time.php?stat=eco_gdp_rea_gro_rat-economy-gdp-real-growth-rate&country=lt-lesotho

country, an increase of technology in the country and an increase in Foreign Direct Investment (FDI) in the countries that invest into the growth of the economy will be included.

In what way has the AGOA agreement helped to diversify the Namibian and the Lesotho economy? This is one of the questions that this paper aims to answer. In order to achieve this, the investigation into what diversification actually is, is needed. Diversification is clearly defined, as the state of variation or modification/change[44]. It is the act of making various or changing form or quality[45]. Diversification provides alternate sources of revenue in the event that a country's original market dries up[46]. Currently the world market is moving from primary products such as agriculture towards manufactured goods, as well as hugely increasing the services' and technologies' sector. By diversifying an economy, especially if the country's economy is based on primary products (such as agriculture), as many developing nations are, it contributes to the country earning a higher GDP and the ability to grow further.

The diversification of markets allows for greater investment into concrete structures of economy such as infrastructure, as now more markets will need this feature in order to survive. This means that funding will not originate exclusively from the government but to a large extent will be funded by private enterprise as it will be beneficial for them. Diversifying the economy takes away the pressure from the agricultural sector to shoulder the bulk of the GDP of the country, especially in light of the fact that it is not conducive to the international economic order.

Diversification can occur in two different forms. Firstly, there is horizontal diversification, which is the expansion into a similar product area, for example a domestic furniture manufacturer starting to manufacture office furniture[47]. The other

[44] BNet: Business Definition for Diversification, Online Business Dictionary, CBS interactive, March 2009, http://dictionary.bnet.com/definition/diversification.html
[45] Loc cit
[46] Entrepreneur Media: Diversification, Entrepreneur Connect, March 2009 http://www.entrepreneur.com/encyclopedia/term/82254.html

[47] Business E-Coaching: Diversification Strategies, Online Business Coach, March 2009 http://www.1000ventures.com/business_guide/im_diversification_strategies.html

type of diversification is vertical diversification. This is when a company moves into a different level of the supply chain, for example a manufacturer becoming a retailer[48].

From the above, the key concepts that have been explored aid in providing bases as to what was being sought when looking at how a country is developing and diversifying. This has provided a strong foundation within to work. The Namibian and Lesotho economy has to some extent has been explored. In order to fully comprehend the extent to which the AGOA agreement has had on the economy however, the AGOA agreement needs to be discussed, as well as what this exactly entails. As the AGOA agreement is situated within the Free Trade Theory, this Theory will now be discussed in order to show how the AGOA agreement provides an optimal environment for Free Trade to flourish within.

2.1: The Free Trade Concept, Africa and AGOA

The assessment of free trade was first observed and documented by Adam Smith in his "magnum opus, The Wealth of Nations" in 1776[49]. Smith advocated the idea of Absolute Advantage. The principle of Absolute Advantage refers to the ability of a party (an individual, firm, or country) to produce more goods or services than competitors, using the same amount of resources[50]. Smith argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import. He stated instead that all nations would gain simultaneously if they practiced Free Trade and specialized in accordance with their Absolute Advantage[51].

This argument was continued, advocated and improved upon by David Ricardo, who made a case for Free Trade by presenting a specialised economic model featuring a single factor of production with constant productivity of labour in two goods[52]. This

[48] Loc cit
[49] Bhagwati, Jagdish N. Free Trade Today. Princeton, N.J.: Princeton University Press, 2002.
[50] O'Sullivan, Arthur; Sheffrin, Steven M, op cit pg443
[51] Ibid pg 443
[52] Bhagwati JagdishN, op cit pp 3

model demonstrated the benefits of trading via specialization, as states could acquire more than what their labour alone would allow them to produce[53].

An important aspect and element of Free Trade Theory is the principle of Comparative Advantage. David Ricardo advocated this principle in his Theory of International Free Trade. In the Ricardoian model, countries are assumed to differ only in their productive capacities[54]. It was in this model that David Ricardo first formally demonstrated the principle of Comparative Advantage[55]. The principle states that individuals and countries should specialise in producing those goods in which they are relatively, not absolutely, more efficient[56]. In other words, Comparative Advantage is the ability of a country to produce a good at a lower opportunity cost than some other country[57].

Comparative Advantage is used to justify Free Trade and oppose protectionism[58]. Comparative Advantage is based on differing opportunity costs reflecting the different factor endowments of the countries involved[59]. The principle assumes free trade, willingness to specialise and factor mobility[60]. Specialisation and trade benefit countries provide at an exchange rate between the respective opportunity cost ratios[61]. What is important to note is that this principle works under the Free Trade umbrella, thus in theory there should be no trade barriers for these goods. The benefit of the Comparative Advantage Theory is that, if used in conjunction with free trade countries that have sector abundance such as Lesotho (in the textile industry) a comparative advantage in textiles will be present. They can therefore, produce textiles more efficiently than that of other countries. Labour intensive sectors such as Lesotho's textile industry have an opportunity to grow within the Theory of Comparative Advantage.

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[53] Loc cit
[54] Steve Suranovic, A lesson in Comparative Advantage, Washington DC, http://stevesuranovic.blogspot.com/2007/10/lesson-on-comparative-advantage.html
[55] Ibid pg 1
[56] Carbaugh, R: op cit pg542
[57] Loc cit
[58] Learning curve Education: Development models-Comparative Advantage, http://tutor2u.net/economics/content/topics/development/development_models_comparative_advantage.htm
[59] Ibid pg 1
[60] Loc cit
[61] Loc cit

Smith and Ricardo's ideas led to the start of Free Trade Theory that implies the following features: trade of goods without taxes (including tariffs) or other trade barriers (*e.g.*, quotas on imports or subsidies for producers); trade in services without taxes or other trade barriers; the absence of "trade-distorting" policies (such as taxes, subsidies, regulations or laws) that give some firms, households or factors of production an advantage over others[62].

Free trade allows for free access to markets and market information; the inability of firms to distort markets through government-imposed monopoly or oligopoly power; the free movement of labour between and within countries as well as the free movement of capital between and within countries[63]. In other words, liberal trade policies — policies that allow the unrestricted flow of goods and services — sharpen competition, motivate innovation and breed success[64]. They multiply the rewards that result from producing the best products, with the best design, at the best price[65]. Supporters of free trade claim that it increases economic prosperity as well as opportunity, especially amongst developing nations, enhances civil liberties and leads to a more efficient allocation of resources[66]. Economic theories of Comparative Advantage suggest that free trade leads to a more efficient allocation of resources, with all countries involved in the trade, benefiting[67]. In general, this leads to lower prices, more employment, higher output and a better standard of living for those in developing countries[68].

According the World Trade Organisation, their data shows a definite statistical link between freer trade and economic growth[69]. This is seen in the fact that all countries, including the poorest, have assets — human, industrial, natural, financial — which they can employ to produce goods and services for their domestic markets or to

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[62] AC Mulligan, Rod Hay and Tony Brewer, David Ricardo and Comparative Advantage, http://iang.org/free_banking/david.html
[63] Ibid pg 1
[64] WTO: op cit pg 1
[65] Loc cit
[66] Harold Meyerson, Building a Better Capitalism, Thursday, March 12, 2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/03/11/AR2009031103218.html?wpisrc=newsletter
[67] Ibid pg1
[68] Sachs, Jeffrey: *The End of Poverty*, New York, New York: The Penguin Press 2005
[69] WTO: The Case for Open Trade, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact3_e.htm June 2009

compete overseas[70]. Economics tells us that we can benefit when these goods and services are traded[71]. Free trade theorists argue that in a perfectly competitive market (with homogenous goods), exporters who enjoy duty-free access should benefit from a price increase that equals the amount of the tariff[72]. In other words, competition among the importing firms should force the prices received by the exporting firms to climb by the amount of the tariff which was previously collected by the government as revenue[73]. The AGOA agreement pertains to this concept as now under AGOA, the exporters should capture this income as rent for their preferential status[74]. This, in theory, would help exporters gain greater profits which could be invested back into the industry in order to help it grow. However, does this occur under the AGOA agreement? This paper will explore this notion at a later stage.

According to economist Arnold C. Harberger, freer trade -- from reduced tariffs, regulations and restrictions -- raises a country's level of output and stimulates economic growth[75]. He argues that it has contributed to unprecedented economic growth and rising living standards around the globe over the last 25 years or so[76]. The necessary circumstances for growth can be achieved by liberalizing trade and mobilizing resources through free markets[77]. Government policies can foster the growth of human capital, facilitating the process by which firms make productive investments and, above all, creating a favourable environment for seeking and implementing real cost reductions[78]. Free trade theory claims to help economic growth in a country. According to the International Monetary Fund (IMF), the more open an economy is to trade with the outside world, the better are the growth rates that will result[79]. They use the example of the study by Warcziarg and Welch of 133 countries between 1950 and 1988[80]. Countries that liberalized their trade regimes

[70] Ibid pg1
[71] Loc cit
[72] Marcelo Olarreaga & Caglar Ozden: op cit pg1
[73] Loc cit
[74] Loc cit
[75] NCPA: Free Trade and Economic Growth, Daily Policy Digest, 25 May 2006, http://www.ncpa.org/sub/dpd/index.php?Article_ID=3379
[76] Ibid pg 1
[77] Loc cit
[78] Loc cit
[79] Anne O. Krueger, Trade, Jobs and Growth: Why You Can't Have One Without the Others, Reuters Trade, Globalization and Outsourcing Conference, New York City, June 15, 2004 http://www.imf.org/external/np/speeches/2004/061504.htm
[80] Ibid pg 1

enjoyed annual growth rates about one half of one percent higher after liberalization. Opening up to international trade has become increasingly important: removal of trade barriers during the 1990s raised growth rates by 2.5% a year[81].

The AGOA agreement works in conjunction with the Free Trade Theory, thus allowing for the principle of Comparative Advantage. The AGOA agreement is situated within the global economy and its context. This means AGOA is very firmly within the scope of the Free Trade Theory, which will be explored at a greater length within the AGOA agreement chapter. The world economy and developing countries however do not always work in conjunction and this is where the AGOA agreement aims to help This leads us therefore, to move on to the discussion of the developmental aspects of AGOA.

2.2 Developmental Aspects in AGOA and New Trade Theories

The context of the world economy today does not create the optimal level for the Free Trade Theory to develop countries as it did in the past. The gap that exists between developed countries and developing ones is greater than when the theory was first advocated by Ricardo and Smith. Ha-Joon Chang argues that the productivity gap between the First World and the Third World is much higher than the productivity gap which the industrial countries in the 1700s faced[82]. He argues, that a general feature is, that the underdeveloped nations of today are not in the same position that the developed countries were in terms of similar levels of technology[83]. Developing countries are a fragile group of actors in the competitive world economy where developed nations have always been the stronger players even if it was at a lower level (such as in the 1700s). The concept of strong institutions is a key aspect of economic development[84]. This means that a country that has a strong macro-economic policy, trade policy, deregulation and privatization needs to be matched by deeper reforms of political institutions, bureaucracies, judiciaries and social safety nets[85].

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[81] Loc cit
[82] Ha-Joon Chang: Kicking away the ladder, post-autistic economics review, issue no. 15, September 2002, article 3 www.btinternet.com/~pae_news/review/issue15.htm
[83] Ibid pg 1
[84] Thompson, C: US Trade with Africa: African Growth and Opportunity? Review of African Political Economy, Vol.31, No.101, An African Scramble? Sep 2004
[85] Chakravarthi Raghavan, Globalization needs strong internal institutions, Third World Network, http://www.twnside.org.sg/title/inte-cn.htm

The Free Trade Theory assumes that this is already in place. As mentioned before, developing countries lack these strong institutions. Another aspect of the Free Trade Theory that is not fully explored is the fact that the world economy is not always situated in free trade, such as the U.S and UK subsidies' towards their agricultural sector. This means that the principle of comparative advantage that is campaigned by Free Trade Theorists is hindered.

The global economy is stemmed deeply within the concept of free trade and therefore it cannot be ignored. Countries now have to develop their economy in order to compete in the world economy by following the Free Trade Theory. The AGOA agreement therefore provides African countries a most advantageous setting in which to practise free trade.

The developmental aspects of AGOA help African countries promote free trade in the following ways:

A big part of trade liberalisation is the fact that, in theory, it allows for the principle of Comparative Advantage (as mentioned above) to prevail. This means that Africa would have a comparative advantage in raw materials and agriculture, as this is primarily what Africa trades in. However, this does not aid in developing Africa because firstly, most of the world's export composition is that of the "new" economy, as mentioned above. Africa does not trade in the goods that are in demand; therefore it has to diversify its goods in order to compete in today's world economy. Agreements, like AGOA, aims to allow countries to explore new industries by allowing free access to new kinds of goods such as the textile industry in Namibia (This will be explored in greater detail in later chapters).

The second reason for the underdevelopment of Africa, is the fact that, although WTO regulations call for the abolishment of government subsides, developed countries such as the United States and the United Kingdom have yet to stop subsidizing their agricultural sectors. While developing countries have been forced into opening their markets, allowing cheaper imports to undermine domestic agriculture and industry, rich countries have failed to lower their own trade barriers, which cost developing countries some $100

billion US-Dollars in lost opportunities[86]. In order for African countries therefore to counteract this, they need to diversify their economies. AGOA once again, in theory, has helped to do this.

The institutional aspect of economic development fits into the AGOA agreement. As mentioned above, conditions are placed on African governments in order for them to qualify for the AGOA agreement, such as a market economy and a strong rule of law[87]. The AGOA agreement, if implemented properly, will provide the optimal environment and strong institutions for free access and trade to work. This will aid in growing the economy. The question, however, arises as to whether or not these conditions have been implemented properly in the Lesotho and Namibian economy.

The AGOA agreement provides a greater market for the increase of Foreign Direct Investment (this will be explored at a greater level below). This allows the free movement of technology and skills to cross borders. Developing countries are not on the same level of technology of developed countries, as previously mentioned. If the AGOA agreement is implemented correctly, this problem will be rectified. This will allow African countries to use the Free Trade Theory to their best advantage as they would be competing at the same level without being hindered by lack of skills. Therefore the AGOA agreement provides skills development and promotes investment in human capital. Lack of human capital (in terms of skills) is, according to the United Nations, one of the greatest problems that Africa is facing in its underdevelopment[88].

One of the key aspects of development is the Theory of Foreign Direct Investment (FDI). According to the United Nations Conference on Trade and Development, FDI is welcomed and indeed widely sort after by virtually all African Countries[89]. They argue that the contribution FDI can make to African economic development and

[86] William Minter, Africa and the World Trade Organisation: The Issues in Brief, Foreign Policy in Focus, Nov, 2001 http://www.fpif.org/commentary/0111africawto.html
[87] Thompson, C: Op cit pg464
[88] UNCTAD: The Least Developed Countries Report, United Nations Conference on Trade and Development 2002, www.unctad.org/Templates/WebFlyer.asp?intItemID=3075&lang=1&print=1
[89] United Nations: Foreign Direct Investment in Africa: Performance and Potential, United Nations Conference on Trade and Development, New York and Geneva, 1999

integration into the world economy is widely recognised[90]. This leads us in to the exploration of FDI and its link to economic growth and AGOA.

Foreign Direct Investment (FDI) is viewed as a major incentive to economic growth in developing countries[91]. It is seen to deal with major obstacles such as the shortage of financial resources, technology and skills in developing countries[92]. The concept of FDI stems from the neo classical microeconomic theory which was the dominant theory used to explain reasons for FDI flows until the 1960s[93]. From the literature that has been reviewed, including authors Hosseini, Mwilima and Abdulai, the concept of FDI has had a common thread that defines it. This thread, for the purposes of this research, can be defined as a company from one country making a physical investment in another country with the building of another factory. This has broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country[94].

Thus in summary, FDI is the investment of foreign assets into domestic structures, equipment and organisations. It is argued that FDI activity should occur when a country has a comparative disadvantage in a product or when its comparative advantage has been eroded, to allow foreign skills or capital be combined with host country factors in order that the product be produced at a much lower cost[95]. The opinions is that FDI is a more useful than investment in the equity, as this type of investment is seen as "hot money" that can be pulled out quickly if there is a problem in the host country. FDI, on the other hand, is more durable and useful whether matters within the host country go badly or well. This leads us to the benefits of FDI.

FDI is said to benefit the host country in the following ways. Firstly, it helps to bridge the gap between savings and investments in capital-scarce economies, often bringing

[90] Ibid pg 5
[91] Mwilima, N: Foreign Direct Investment in Africa, Africa Labour research network, Labour Resource and Research Institute, September 2003, pg 30-44
[92] Ibid. pg31
[93] Abdulai, D: Attracting Foreign Direct Investment for Growth and Development in Sub-Saharan Africa: Policy Options and Strategic Alternatives, African Development, Vol.XXXII, No.2, 2007, pg 1-23
[94] Jeffrey P. Graham and R. Barry Spaulding, Understanding Foreign Direct Investment (FDI) http://www.going-global.com/articles/understanding_foreign_direct_investment.htm
[95] Hosseini, H: An economic theory of FDI: A behavioural economics and historical approach, The Journal of Socio-Economics, 34, 2005 , pg528-541

with it modern technology and encouraging development of more mature financial sectors[96]. Recipients of FDI often gain employee training in the course of operating the new businesses, thus contributing to human capital development in the host country[97]. FDI is recognised as mutually reinforcing channels for cross-border activities[98]. The profits generated by FDI contribute to corporate tax revenues in the host country[99]. For the purposes of this study the most important FDI benefit is the fact that 'many developing countries pursue FDI as a tool for export promotion, rather than production for the domestic economy'[100]. Typically, foreign investors build plants in nations where they can produce goods for export at lower costs[101]. Another way FDI helps boost exports is through preferential access to markets in the parent enterprise's home country[102].

This last benefit pertains to this area of research, as the African Growth and Opportunity Act (AGOA) allows for market preference in the United States' markets for products that are imported from African countries they have this agreement with. Therefore any product that originates from the African country is allowed access to United States markets. This helps FDI to enter into developing African countries, as companies that are in the textile and apparel sector, which AGOA obtains to, will invest in these developing countries in order to gain access to these markets. In fact, according to specialist Mrs. Gladys Modupe Sasore, the AGOA is designed to increase FDI and reverse the low investment trend in the SSA.

From the above it has been shown how an increase in FDI is able to aid emerging economies and how AGOA is supposed to help increase FDI in Africa. However, what have been the trends in FDI in Africa previously and where exactly does the AGOA agreement fit into this? According to a report done by the United Nations (UN), the image of Africa as a location for FDI has not been favourable. Africa also

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[96] Kumar, A: Does Foreign Direct Investment help emerging economies? Federal Reserve Bank of Dallas, Vol.2, No.1, January 2007 pg 1-13
[97] Prakash Loungani and Assaf Razin, How Beneficial Is Foreign Direct Investment for Developing Countries?, Finance and Development, Vol.38, No2, June 2001 http://www.imf.org/external/pubs/ft/fandd/2001/06/loungani.htm
[98] OECD, Foreign Direct Investment for Development: Maximizing Benefits, Minimizing Costs, Organization for Economic Co-operation and Development, 2002 pg 1-32
[99] Prakash Loungani and Assaf Razin, op cit pg 1
[100] Kumar, A: op cit pg 4
[101] Loc cit
[102] Loc cit

has always been associated with pictures of civil and governmental unrest, starvation, corruption, underdeveloped infrastructure and a lack of skilled workforce[103].

Despite common perception, FDI in Africa is no longer concentrated in the primary sector and has in fact increased into oil-exporting countries, services and manufacturing[104]. What is interesting to note, is that the UN regards the success in FDI as an increase in investment, as well as, where a country prolongs divestment (for example Swaziland), or if a country is able to reverse a negative FDI trend (for example Tanzania)[105]. This is important to note if, when looking at the significance of the AGOA agreement throughout this research paper, it becomes apparent that the AGOA agreement has helped to reverse negative FDI, the agreement to some extent has been successful in helping the Namibian and Lesotho economy grow.

According to the World Investment Report, FDI trends in Namibia before the AGOA agreement was put in place i.e. from 1990 to 2000, the average inflow of FDI was only $97 million US-Dollars, with a 15.4% of gross fixed capital formation. FDI stocks between this period inwardly range from 2047(1990) to 1276(2000)[106]. This increased to $697 million US-Dollars in 2007 with a 39.9% of Gross Capital Formation[107]. Lesotho's inflow of FDI increased from 13.4% of GDP in 1990 to 45.9% in 2007[108]. The inflow of Lesotho increased from an average of $24 million US-Dollars in the period from 1990-2000 to $105 million US-Dollars in 2007[109]. Although the extent of this increase will be explored at a later stage, it will also be shown whether or not this trend is directly connected to implementation of the AGOA agreement or if it is just due to other FDI increases that are not related.

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[103] Annan, K: Foreign Direct Investment in Africa: Performance and Potential, United Nations conference on Trade and Development, New York and Geneva, June 1999

[104] Birchall, J: Some Trends into Foreign Direct Investment into Africa, http://www.johnbirchall-economist.com/SometrendsinforeigndirectinvestmentintoAfrica.doc

[105] Annan, K: op cit pg21

[106] World Investment Report 2008: Country Fact Sheet: Namibia, United Nations Conference on Trade and Development. http://www.unctad.org/sections/dite_dir/docs/wir08_fs_na_en.pdf

[107] Ibid pg1

[108] World Investment Report 2008: Country Fact Sheet: Lesotho, United Nations Conference on Trade and Development http://docs.google.com/gview?a=v&q=cache%3A47hjuQhqElAJ%3Awww.unctad.org%2Fsections%2Fdite_dir%2Fdocs%2Fwir08_fs_ls_en.pdf+Lesotho%27s+FDI+flows&hl=en&gl=za&pli=1

[109] Ibid pg1

To a remarkable extent, Africans living in the interior of the continent face enormous transport costs in shipping goods between coastal ports and the places where they live and work[110]. Despite a long history of local and international efforts, Africa still suffers from a particularly weak endowment of basic infrastructure, lagging behind other low income countries on a wide range of indicators[111]. This deficit has major economic and social consequences for the region[112]. Inadequate infrastructure is holding the productivity of African entrepreneurs back, and imposing major costs on business in terms of lost output and additional costs incurred to compensate for inadequate public services[113]. Moreover, modern infrastructure services largely by-pass the bottom 60% of the income distribution (including the vast majority of the rural population), who suffer the consequences in terms of bad health, higher cost of living, and reduced access to economic opportunities[114].

This lack of infrastructure can be addressed, in theory, with the help of economic agreements such as AGOA. These agreements help to increase Foreign Direct Investment into these countries (as explained above). This increase of FDI will help to enhance private enterprise investment in infrastructure. In theory, AGOA will help these countries to develop. If the AGOA agreement allows for this direct investment, there should be, in theory, a transfer of skills and technology that will combat the lack of skills' development that is characterised as one of the problems facing the African continent. One can see from the above that there is indeed a need for an agreement like that of AGOA. This however, begs the question as to whether or not this agreement has achieved this. Thus we move onto exploring the agreement as a whole and the aims of the agreement. This will create a better understanding of what the agreement is trying to achieve and whether or not this is in line with what is needed for Africa to develop.

This section has created a basis of FDI trends and theories in which this paper is able to base its research on. It has become apparent how important FDI is when discussing economic development in Africa. However it is important to note that these

[110] Sachs, J (2004), op cit pg132
[111] AICD: Why the AICD? African Infrastructure Country Diagnostics, 2009, http://www.infrastructureafrica.org/loadPage.php?page=motivation
[112] Ibid pg 1
[113] Loc cit
[114] Loc cit

developmental issues cannot be solely attributed to the AGOA agreement. A large part of this is a function of government spending patterns. Whilst AGOA may be able to help increase FDI and in turn investment, how the government of that country spends this investment is a different story. The government would need to invest in infrastructure, technological development and education in order for the AGOA agreement to reach its desired potential in eradicating poverty in developing countries. This has also shown the underlying aim of the AGOA agreement that will be investigated in more comprehensive detail further in the research paper. In order to fully comprehend the need for the AGOA agreement and the aims of the agreement, the world economy today and the circumstances and implications it has on the developing nation need to be explored. This will create an understanding as to exactly what the AGOA agreement is trying to achieve and whether or not it has obtained these achievements in line with the challenges facing African Nations.

Chapter 3: Globalisation, Africa and Present World Trade

The global economy is inherently characterised by a disparity in the relationship between the North and South[115]. Although there is heterogeneity in the countries of the South, historically the relationship has significantly contributed to an unequal development and marginalization of the countries of the South by the more industrial countries of the North[116]. However, the North-South interdependence cannot be viewed as a static phenomenon[117]. Globalisation has affected this interdependence, as it is ever changing.

Globalisation is one of the most frequently used words in the discussions of development, trade and international political economy[118]. It is a process by which economies of the world become increasingly integrated, leading to a global economy and increasingly, global economic policymaking, for example through international agencies such as the World Trade Organisation[119]. Globalisation is a catch-all term that is used to describe phenomena as

[115] Dr Obuah, E: North-South Cooperation: An Assessment of US Multilateral Trade Arrangement with Sub-Saharan Africa under AGOA, Journal of Sustainable Development in Africa, Vol. 9, No.3, 2007 pp 64-84
[116] Ibid pg 64
[117] Loc cit
[118] Todaro, M and Smith, S: Economic Development, Eighth Edition, Pearson Education Limited, England, 2003
[119] Ibid pg510

diverse as trade liberalization, outsourcing, increased immigration flows, removal of capital controls, cultural globalization, and generally faster transmission of international shocks and trends[120]. The United Nations, \ ESCWA has written that globalization is a widely-used term that can be defined in a number of different ways[121]. When used in an economic context, it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour. Considerable barriers however, remain to the flow of labour[122]. Whilst there is cultural globalisation and political globalisation, for the purposes of this study, economic globalisation will be the main focus. The AGOA agreement is an economic agreement that fits in with the concept of economic globalisation. Because of the effects of globalisation, the need for the AGOA agreement will be explored later in the research paper. This moves us on to what the effects of economic globalisation, trade liberalisation and comparative advantage have had on trade and the African continent.

Economic globalisation has brought about such changes as liberalisation of trade and investment, formation of regional economic agreements, removal of subsidies and price supports[123]. Some producers may benefit from economic globalisation by shifting production of export commodities, accessing niche markets or finding alternative sources of income, related to emerging consumer economies[124]. The potential advantage of economic globalisation for developing countries is the fact that globalisation presents new possibilities for eliminating global poverty[125]. Economic globalisation together with traditional trade and finance provides a greater diffusion of productive ideas (such as a shorter period of time between innovation and adoption of new technologies around the world), consequently helping developing countries

[120] Pinelopi Koujianou GoldbergNina Pavcnik, TRADE, INEQUALITY, AND POVERTY: WHAT DO WE KNOW? EVIDENCE FROM RECENT TRADE LIBERALIZATION EPISODES IN DEVELOPING COUNTRIES, NBER WORKING PAPER SERIES, NATIONAL BUREAU OF ECONOMIC RESEARCH, June 2004
[121] United Nations Economic and Social Commission for Western Asia, Summary of the Annual Review of Developments in Globalization and Regional Integration in the Countries of the ESCWA Region, United Nations, New York, 2002
[122] Ibid pg4
[123] O' Brien, K and Leichenko, R: The Dynamics of Rural Vulnerability to Global Change: The Case of Southern Africa, Migration and Adaptation Strategies for Global Change 7, Kluwer Academic Publishers, Netherlands, pp 1-18
[124] Ibid pg 1
[125] Todaro, M and Smith, S: op cit pg 511

"catch up" to developed countries quicker[126]. Foundations of Free Trade and Adam Smith have always been of the opinion that "the division of labour is limited to the extent of the market". Globalisation therefore, provides a greater market in which producers are able to trade within, thus providing a greater incentive for innovation as the prospective return is much greater[127].

What is important to note, is that if there is a greater market to trade in, there is a greater potential for profit that can be put back into the economy and the social structure of the country. Economic globalisation has the potential to rectify the lack of skills' development that is so often associated with LDCs. The transfer of technology and skills allows for education and expertise to be taught at a larger scale in a shorter time period. There are no implementation delays or institutional problems, as often skills development will occur within the private sector in the form of international corporations that invest within the host country to extend their own market.

According to the WTO more globalised developing countries generated growth averaging 5% a year in the 1990s, against 1.4% for less globalised countries[128]. Opening up their economies to the global economy has been essential in enabling many developing countries to develop competitive advantages in the manufacture of certain products[129]. According to the IMF the potential gains from eliminating remaining trade barriers are considerable[130]. IMF claim that estimates of the gains from eliminating all barriers to merchandise trade range from US$250 billion to US$680 billion per year[131]. About two-thirds of these gains would accrue to industrial countries, but the amount accruing to developing countries would still be more than twice the level of aid they currently receive[132]. However, this is not always the case in developing countries and there are disadvantages to globalisation that do affect a country's growth.

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[126] Todaro, M and Smith op cit pg 115
[127] Loc cit
[128] IFSL: Trade Liberalisation and Privatisation: Challenging the Sceptics, International Financial Services, London, 2005
[129] Ibid pg3
[130] IMF: Global Trade Liberalisation and the Developing Countries, An IMF Issue Brief, 2001 http://www.imf.org/external/np/exr/ib/2001/110801.htm#i
[131] Ibid Pg 1
[132] Loc cit

The downside of globalisation can be greater for poorer countries, as there is a real possibility that these countries may become locked into a pattern of dependence, that dualism in Less Developed Countries (LDCs) may sharpen, or that some of the poor may be entirely bypassed by globalisation[133]. The poor may be left in poverty traps that can be harder to escape[134]. The share of international investment by the poorest countries has been steadily decreasing and all developing countries may be affected by increased vulnerability to capital flows[135]. Chronic instability of global financial markets has limited international regulatory institutions[136]. This has caused risks to developing countries when integrating rapidly into global markets[137]. As mentioned above, the new world economy is based on quality rather than cheap labour costs, whereas unfortunately most LDCs competiveness is based on cheap labour costs. This means that Africa falls behind in competing against global products.

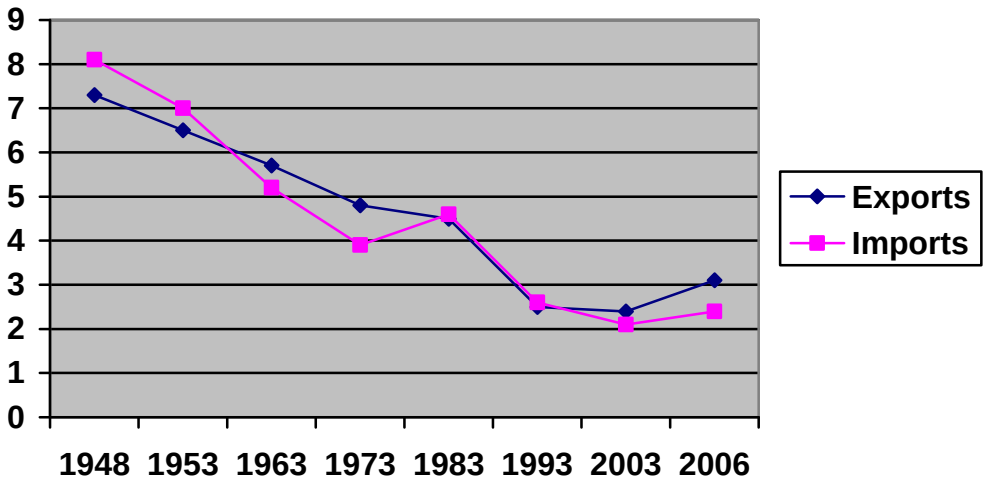
Whilst globalisation allows for a greater market in which to trade in, it also allows for more varied and better quality products in which an industry now has to compete against. The UNCTAD 2004 report argued that international trade could play a positive role in reducing poverty in LDCs but this has not been happening in practice[138]. The report showed in fact that enhanced market access that globalisation (via trade liberalisation) provides for does not help with poverty reduction[139]. This has been very evident in the African Continent.

As mentioned above, Africa only constitutes 2% of world trade. Africa's relative performance in the global market has reached drastically low levels in the past thirty years[140]. Although total levels of merchandise trade have increased for all African countries, sub-Saharan Africa's share of world trade has been in decline for a long time, most markedly since the 1980s[141]. If one compares this with the performance of the Asian region, where shares of world trade have doubled over the same period

[133] Todaro and Smith: op cit pg511
[134] Loc cit
[135] Loc cit
[136] Frances Stewart and Valpy Fitzgerald op cit pg 6
[137] Loc cit
[138] UNCTAD: op cit pg 1
[139] Loc cit
[140] ECIPE: Africa and World Trade, European Centre for International Political Economy (ECIPE) Media Briefing Note1/2007
[141] Ibid pg1

reaching 27.8 percent in 2006; Africa's increased marginalisation in the world economy becomes even more apparent[142]. The World Bank estimates that Africa's decline in trade represents a loss equivalent to $70 billion US-Dollars annually – five times the $13 billion US-Dollars received in aid and 21 percent of GDP[143]. The table below shows Africa's decline in world trade over the last decades.

Table 1: Africa's decline in world trade since 1948



-Data from European Centre for International Political Economy (ECIPE) Media Briefing Note1/2007

Not only has Africa been the poorest region in the world, but it has also been the only major developing region with negative growth in income per capita during 1980–2000[144]. Africa's health conditions have been by far the worst on the planet[145]. The AIDS pandemic has been wreaking havoc as, has the resurgence of malaria due to rising drug resistance and the lack of effective public health systems[146]. Africa's population has continued to soar, adding ecological stresses to the economic strains[147]. Policy-based development lending to Africa over the past twenty years,

[142] ECIPE op cit pg 1
[143] Loc cit
[144] Sachs, J: Ending Africa's Poverty Trap, UN Millennium Project, Brookings Papers on Economic Activity, 1:2004, pp117-240
[145] Ibid pg117
[146] Loc cit
[147] Sachs, J :op cit pg 117

known as structural adjustment lending, did not solve the problem[148]. A heavy debt burden is evidenced by the 155 Paris Club restructurings of African countries' debt between 1980 and 2001, more than for any other region[149]. This has painted a bleak picture for the African continent. Whilst the poorest continent in the world has one of the richest supplies of natural resources, it has not been capitalising on it[150]. What would Africa need to do in order to correct this?

Over the years there have been many studies done by UNCTAD, academics such as George Assaf (1998) and organisations such as ICTSD regarding this. The main conclusions that have been arrived at is, that in order for LDCs to exploit the opportunities presented to them by globalisation, they would firstly, need to change the social structure of the country so as to combat industrial supply weaknesses, such as skilled human resources. There needs to be a diversification of sectors in order to strengthen the export base of the country. LDCs are characterised as lacking in economies of scale and face high transport costs due to the failing infrastructure. As LDCs are the most susceptible to climate change, because it affects their main form of export, namely the agricultural sector, Africa needs to move into a more industrialised sector[151]. This leads us to a discussion as to whether or not there is a need for the AGOA agreement within the world economy.

3.1 Rectifying Problems of the LDC

Discussion of LDCs in chapter 2 has concluded that developing countries are caught in a poverty trap. Developing nations have been left destitute, isolated and underdeveloped. LDCs have been left with a trade deficiency and as mentioned above are often bypassed by globalisation altogether. In order to rectify this trade deficiency Preferential Trade Agreements (such as AGOA) have been put in place. These agreements in theory are aimed at helping developing nations reach sustainable growth and development. The idea to combat this, has been development through trade.

[148] Loc cit
[149] Loc cit
[150] ICTSD: Trade and Climate Change: Key Issues for LDCs, SVEs, and SIDS from a Competitiveness, Adaptation and Resilience Perspective, 19th – 20th November 2008 • Co-organised with Commonwealth Secretariat, Chatham House; ICTSD, http://ictsd.org/i/events/dialogues/32447/
[151] Ibid: pg 1

Authors, such as Cooper and Mkandawire, stress that there has been a shift in developmental thought - there is now a focus on economic growth rather than concentrating energies on political development[152]. African economies have been encouraged to industrialize, maximize exports and build a balanced economy; which will occur by increasing trade[153]. Unilateral trade agreements are seen as a way of helping African markets to become more economically competitive and increase their trade capacity in light of the fact that the global economic environment tends not to be in favour of aiding the African economy. Some of these agreements have included the Conotou agreement; for example Art. 21 in the Conotou Agreement has established investment into private sector development and last years' China-South Africa agreement on quotas within the South African country.

However, the question is asked, that while in theory these agreements (including AGOA) will pull LDCs out of the poverty trap, have they really achieved this? This research paper will respond to this specifically pertaining to AGOA by exploring the agreement as a whole and the aims of the agreement. This will create a greater understanding of what the agreement is trying to achieve and whether or not this is in line with what is needed for Africa to develop.

Chapter 4: The African Growth and Opportunity Act (AGOA) explained

"No nation in our time has entered the fast track of development without first opening up its economy to world markets. The African Growth and Opportunity Act is a road map for how the United States and Africa can tap the power of markets to improve the lives of our citizens."

- George W. Bush, President of the United States of America

[152] Cooper, F. Africa since 1940: The Past of the Present, Cambridge: Cambridge UP, 2002, 91-118.
[153] Ibid pg100

The USA is Africa's largest single country market with its exports being $6893.6 million US-Dollars and its imports being $25644.3 million US-Dollars and accounted for 21 percent of its exports in 2002 (USTR, 2004)[154]. Its trade is dominated by a small number of countries and commodities[155]. For example, only four countries (Nigeria, South Africa, Angola and Gabon) accounted for 83 percent of the US purchases (crude oil, platinum, diamonds, motor vehicles) in 2003[156]. Similarly, these countries (South Africa, Nigeria and Angola) accounted for 63 percent of US exports (aircraft, machinery and equipment, chemicals, oilseeds and grains) during the same period (USTR, 2004)[157]. Trade performance in Sub-Saharan Africa has been characterized by weak export growth, declining trade shares in the global market, and low foreign investment levels[158]. The United States has made an attempt to assist in reversing these trends by passing the African Growth and Opportunity Act (AGOA)[159].

As mentioned before, the African Growth and Opportunity Act (AGOA), was signed between the United States and currently 39 Sub-Saharan African countries into law on 18th May 2000 as Title 1 of the Trade and Development Act of 2000[160]. The Act offers tangible incentives to African countries to continue their efforts to open their economies and build free markets[161]. Significantly enhancing U.S market access to the SSA countries is the aim of this agreement[162]. AGOA provides reforming African countries with the most liberal access to the U.S. market available to any country or region with which the United States does not have a Free Trade Agreement, by allowing duty and quota-free access to the markets[163]. The act originally covered an eight year period (2000-2008) but in 2004 President Bush made provisions and

[154] Seyoum, B: Export Performance of Developing Countries under the African Growth and Opportunity Act: Experience from US trade with Sub-Saharan Africa, Journal of Economic Studies, Vol. 34, No.6, 2007 pp 515-533
[155] Ibid pg517
[156] Loc cit
[157] Loc cit
[158] Shapouri, S and Trueblood, M: op cit pg 1
[159] Loc cit
[160] ASIL : Trade Developments between the United States and Sub-Saharan Africa, *The American Journal of International Law*, Vol. 96, No. 4 (Oct., 2002), pp. 978-979
[161] Ibid. pg 978
[162] TRALAC: About AGOA, AGOA.INFO, March 2009 http://www.agoa.info/
[163] International Trade Administration: Summary of AGOA I, US Department of Commerce, March 2009 http://www.agoa.gov/agoa_legislation/agoa_legislation.html

extended the agreement to 2015[164]. Unlike reciprocal trade agreements, whereby countries involved are required to make certain trade concessions, AGOA is a unilateral trade preference program intended to reinforce African reform efforts by providing improved access to US market, credit and technical expertise[165].

This Act is linked with certain Rules of Origin. Firstly, there are the General Rules of Origin. In order for a Sub-Saharan country to qualify for duty-free access to the US under AGOA, the Rules of Origin underlying this trade Act require that a product be the "growth, product or manufacture" of an AGOA-beneficiary Sub-Saharan African (SSA) country[166]. The main features of this rule are: The product must be imported directly from the AGOA-beneficiary country into the United States; items must be "growth, product or manufacture" of one or more AGOA-beneficiary countries; products may incorporate materials sourced from outside countries (i.e. non AGOA-beneficiaries) provided that the sum of the direct cost or value (i.e. the transaction value) of the materials produced in the AGOA-beneficiary countries(s), plus the "direct costs of processing" undertaken in the AGOA-beneficiary countries, equal *at least* 35% of the product's appraised value at the U.S. port of entry and finally up to a total of 15% of the 35% value (as appraised at the U.S. port of entry) may consist of U.S. parts and materials[167].

The reason that the Rule of Origin clause has been incorporated in AGOA is to ensure that only goods/products are created and assembled in the African country. Therefore, any foreign companies wanting to benefit from the AGOA agreement would have to invest in the African economy itself. This would lead, in theory, to an increase in FDI, as companies would have to open subsidies within the African country rather than just distributing their own products (originating in the foreign country) through the African economy. Sustainable investment in the African country would be allowed for, as there would be an investment in not only the infrastructure of the African country (in order to make the company international competitive), but there will be a transfer of technology and skills into the developing African country.

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[164] Loc cit
[165] Seyoum, B: op cit pg 517
[166]TRALAC: AGOA's General Rules of Origin, AGOA.INFO, June 2008 http://www.agoa.info/index.php?view=about&story=rulesof_origin
[167] Loc cit

The AGOA agreement creates an optimal environment for the principle of Comparative Advantage to work. As the AGOA agreement is a preferential trading agreement it allows for full and free access to the United States' markets. The Comparative Advantage principle works best within a free trading area such as AGOA. Thus has therefore enabled Africa's existing industries as well as new industries to trade at a comparative advantage. As mentioned above, Africa's agricultural trade (in which they have a natural comparative advantage in), has been hindered by subsidies that are in the U.S and U.K. The AGOA agreement, therefore, allows African countries to achieve a comparative advantage in other goods. In theory, this will help to develop and diversify the African economy, as the Free Trade Theory claims that countries should trade in products in which they have a comparative advantage. The AGOA agreement allows the African countries to diversify the goods in which they have a comparative advantage. This will help to develop the countries' economies. In theory, this is how the AGOA agreement is supposed to operate. However, has AGOA achieved this? This research paper will explore this aspect.

The law's regime can tentatively be demarcated into three phases: AGOA 1: This extended GSP for eligible Sub-Saharan Africa until 30 September 2008[168]. AGOA 2: This occurred when clarifications regarding duty-free treatment of apparel or knitwear were being made[169]. President George W Bush signed the Trade Act 2002 that included enhancements relating to the above in August 2002[170]. AGOA 3: The proposal has been to extend AGOA timeframes by an additional seven years to 2015 and the special rule for less developed countries relating to apparel by a further four years to 2012[171]. One of the primary tools that the USTR has used in its efforts to implement AGOA in sub-Saharan Africa has been the U.S. Sub-Saharan Africa Trade and Economic Forum, which was created in section 105 of AGOA[172]. The Forum serves as the main vehicle for facilitating continuous dialogue between the U.S. and

[168] Trade Invest South Africa: The African Growth and Opportunity Act, June 2007 http://www.tradeinvestsa.co.za/incentives/983106.htm
[169] Ibid pg1
[170] Loc cit
[171] Loc cit
[172] Keith E. Noble, The Complete Guide To Understanding The U.S.-sub-Saharan African Trade Relationship: Analysis and Opinions On The Ghanaian Implementation Of The African Growth & Opportunity Act (AGOA)—A Case Study, Miami University Oxford, Ohio 2006

Sub-Saharan African nations on issues such as trade, economics, and investment[173]. According to AGOA, the Forum, which is hosted by the U.S. Secretaries of State, Commerce, Treasury, and the Office of the U.S. Trade Representative, is required to take place on an annual basis[174].

AGOA has expanded the list of products which Sub-Saharan African countries may export to the United States subject to zero import duty under the Generalized System of Preferences (GSP). The U.S. Generalized System of Preferences (GSP) is a program designed to promote economic growth in the developing world by providing preferential duty-free entry for about 4,800 products from 131 designated beneficiary countries and territories[175]. While general GSP covers approximately 4,600 items, AGOA GSP applies to more than 6,400 items. AGOA GSP provisions are in effect until September 30, 2015[176]. AGOA authorizes the US President to provide duty-free treatment under GSP for any article, after the U.S. Trade Representative and the U.S. International Trade Commission have determined that the article is not import sensitive when imported from African countries[177].

On December 21, 2000, the President of the US, George Bush, extended duty-free treatment under GSP to AGOA eligible countries for more than 1,800 tariff line items in addition to the standard GSP list of approximately 4,600 items available to non-AGOA GSP beneficiary countries[178]. The additional GSP line items, which include previously excluded items such as footwear, luggage, handbags, watches, and flatware, were implemented after an extensive process of public comment and review[179].

[173] Ibid pg29
[174] Loc cit
[175] Office of the United States Trade Representative: Generalized System of Preferences, 2009 http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp
[176]International Trade Administration: op cit pg 1
[177] American Society of International Law: op cit. pg979
[178] International Trade Administration: op cit pg1
[179] Loc cit

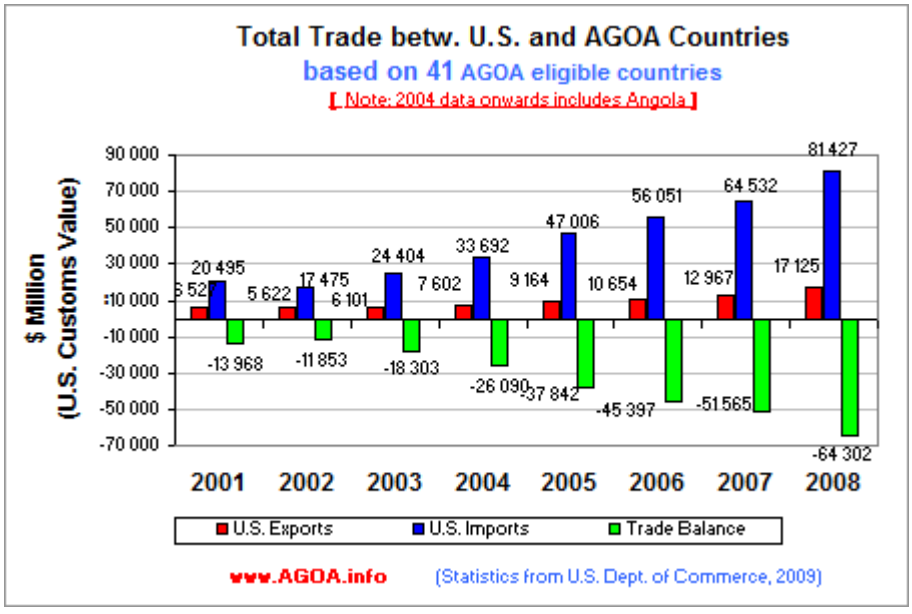
Table 2: Countries that are now eligible for the AGOA agreement

Countries that are eligible for AGOA benefits	Countries that fall under the special rule provision
Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Cape Verde; Chad; Comoros; Republic of Congo; Democratic Republic of Congo; Djibouti; Ethiopia; Gabon; The Gambia; Ghana; Guinea; Guinea-Bissau; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Sao Tome and Principe; Senegal; Seychelles; Sierra Leone; South Africa; Swaziland; Tanzania; Togo; Uganda; Zambia.	Benin; Botswana; Burkina Faso; Cameroon; Cape Verde; Chad; Ethiopia; Gabon; The Gambia; Ghana; Kenya; Lesotho; Madagascar; Malawi; Mali; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Senegal; Sierra Leone; Swaziland; Tanzania; Uganda; Zambia.

Source - http://www.agoa.gov/eligibility/country_eligibility.html

(AGOA Home page)

Table 3: Total Trade between U.S and AGOA countries



As shown in the trade graph above, combined exports of these 39 AGOA countries have consistently exceeded the collective value of their imports from the U.S. Based

on US trade data, aggregate trade between the US and AGOA-eligible countries has increased significantly since pre-AGOA times[180]. U.S. imports from SSA increased by more than 50 percent from the pre AGOA 1999 levels[181]. Whilst there was a substantial drop in the 2001/2002 period, this was reversed, as indicated by the release of the full-year data for 2003[182]. In 2004, aggregate trade between AGOA countries and the US was substantially higher than in previous years, but included the contribution of Angola which became eligible at the start of 2004[183]. Angola's share of the 'total exports' value was US$ 3,9bn in that year and most of its exports were of oil[184]. In 2001, the U.S. imported $7.6 billion US-Dollars of duty free goods from AGOA eligible countries and by 2008 this figure was over $81 billion US-Dollars[185]. This data above suggests that on the surface AGOA has been a success. While there has definitely been a large increase in total exports from SSAs and overall trade, this data has not shown whether the agreement has really developed economies in Africa. As mentioned in chapter 2, development is not just reliant on GDP alone, but rather a combination of sustainable growth (including development of new technologies, industries, political stability and a good HDI) in the country. This paper will determine if this sustainable growth has been achieved with the use of case studies that will be explored in chapter 5 and 6.

Before an African country can become a trading partner under this act it has to fulfil strong and specific criteria that only the President of the U.S may certify have been met[186]. The country in question has to have established or has to have been making continual progress towards the following: market economy, with guaranteed right of private property; rule of law and political pluralism; no barriers to US trade and investment; 'national treatment' of foreign corporations; intellectual property rights similar to stringent US laws; poverty reduction policies; increasing availability of health care and education; systems to combat corruption and bribery; respect for

[180] TRALAC: Total Trade Between AGOA countries and the US, http://www.agoa.info/index.php?view=trade_stats&story=all_trade
[181] Mwangi Kimenyi, AGOA 2000-2008: A Success Story? Global Economy and Development: Africa Growth Initiative, The Brookings Institution, September 2009, www.brookings.edu/experts/kimenyim.aspx
[182] Ibid pg 1
[183] Loc cit
[184] Loc cit
[185] Mwangi Kimenyi: op cit pg 2
[186] Thompson, C: US Trade with Africa: African Growth and Opportunity? Review of African Political Economy, Vol.31, No.101, An African Scramble?, Sep 2004, pp 457-474

internationally recognised workers' rights; to refrain from activities that undermine US national security[187]. Taken together, the requirements demand full liberalisation of an economy[188]. Sub-Saharan African countries designated as beneficiary countries must therefore undergo an annual review of their status[189].

During this annual review, countries may be added or withdrawn from the list of beneficiary countries[190]. The President of the US must terminate the designation of a country as a beneficiary country if he has determined that the country is not making continued progress towards meeting the eligibility criteria[191]. As mentioned in chapter 3, according to the UN, market access alone does not help in developing a country. The structure of the country, in terms of institutions and economy, would need to change. This agreement forces this change in structure in the African country to occur. As mentioned above, African countries need to move their economies to assimilate with the world economy. The clause forces African countries to move towards the world economy by establishing a market economy and by liberalising their economy. As seen from the above, the clause compels African countries to improve the structure of their institutions. These changes will enable a more sustainable growth in the country to occur. However, the question arises as to whether or not this has been achieved.

AGOA provides for quota- and duty-free treatment for qualifying textile and apparel products[192]. Such treatment is generally limited to products manufactured from yarns and fabrics formed in the United States or a beneficiary country[193]. The AGOA also provides for quota- and duty-free treatment for apparel articles that are both cut (or knit-to-shape) and sewn or otherwise assembled in one or more beneficiary countries from fabric or yarn that is not formed in the United States, if it has been determined

[187] Ibid pg 464
[188] Loc cit
[189] Selamawit Legesse and Laurie-Ann Agama, Trade under AGOA continues to Expand, International Trade Developments, International Economic Review, USITC Publication 3675, January/ February 2004
[190] Ibid pg2
[191] Loc cit
[192] CITA: Designation under the Textile and Apparel Commercial Availability Provisions of the African Growth and Opportunity Act (AGOA), the Committee for the Implementation of Textile Agreements, March 27, 2006. http://www.otexa.ita.doc.gov/fr2006/desig1.htm
[193] Ibid pg 1

that such fabric or yarn cannot be supplied by the domestic industry in commercial quantities in a timely manner[194].

AGOA has "wearing apparel" rules of origin. The major features of this are as follows: apparel made of U.S. yarns and fabrics; apparel made of Sub-Saharan African (regional) yarns and fabrics, subject to a cap until 2015; apparel made in a designated lesser developed country of third-country yarns and fabrics, subject to a cap until 2012; apparel made of yarns and fabrics not produced in commercial quantities in the United States; certain cashmere and merino wool sweaters; eligible hand loomed, handmade, or folklore articles and ethnic printed fabrics; and finally, textiles and textile articles produced entirely in a lesser-developed beneficiary country[195]

The table below shows the total exports to the U.S. under GSP and AGOA by Sector namely the textile and apparel industry, Year-to-Date (January - March 2009) (AGOA eligible countries only, updated May 2009, quarterly data) Unit: '000 U.S. dollars, Customs Value.

Table 4: Total Textile and Apparel Exports into U.S from AGOA Countries

	AGOA+GSP 2005	AGOA+GSP 2006	AGOA+GSP 2007	AGOA+GSP 2008
Textiles and apparel	14249391	12611281	12705891	1138837

-Source of Data: U.S. International Trade Commission USITC, based on U.S. Dept. Commerce

What is important to note, is the fact that the textile and apparel exports to the U.S under AGOA have actually decreased over the years. This is surprising, as the theory

[194] Loc cit
[195]International Trade Administration: Apparel Eligibility, US Department of Commerce, June 2008 http://www.agoa.gov/eligibility/apparel_eligibility.html

would be that the longer the industries have existed, the more developed and established they would have become, thereby having been able to export more products efficiently. However it is important to note that AGOA countries generally have supply side- constraints in the lack of efficient transportation systems, costly / unreliable energy supply, poor telecoms / high telecoms costs and inadequate production capacity[196]. This may have contributed to the above decrease of exports to the US.

According to the research centre TRALAC, a special rule for 'Least Developed Countries' (LDCs), (classified as such by their GNP per capita being less than $ 1,500 US-Dollars in 1998 as measured by the World Bank), initially allowed such countries duty-free access for apparel made from non-originating fabric for a 4-year period until September 30, 2004. AGOA III extended this provision by a further three years to September 2007 and now to 2012, but has halved the quota level applicable to this category in the final year of extension[197]. Only South Africa, Gabon, Mauritius and the Seychelles are *not* designated as LDCs and therefore do not benefit from this waiver of normal Rules of Origin. Manufacturers of apparel wishing to export duty-free to the U.S. under AGOA are required to "maintain complete records of the production and the export of covered articles, including materials used in the production, for at least 2 years after the production or export"[198].

The criticism of the above is firstly, the fact that countries that do not fall under the "special rule" have to use yarn/ fabric/ thread from the U.S and would therefore eligible to export into the US[199]. Although Botswana and Namibia have now been awarded the "special rule", according to the World Trade Organisation, regulations on all quotas and tariffs on textiles will be removed by 2009[200]. This means that all counties will be able to compete in the textile industry in the U.S. Many argue that this agreement encourages new industries in the textile sector only to have them fail in

[196] Holm-Olsen, F, USAID Competitiveness and Trade Expansion Program, May 2010, http://www.gov.mu/portal/goc/industry/file/Mauritius%20AGOA%20PowerPoint%20Holm-Olsen.ppt.
[197] Trade Law Centre for Southern Africa: AGOA Info, http://www.agoa.info/index.php?view=about&story=apparel_rules
[198] Loc cit
[199] Thompson, C: Decade of 'Trade Not Aid', *Review of African Political Economy*, Vol. 30, No. 96, War & the Forgotten Continent (Jun., 2003), pp. 321-323
[200] Ibid. pg322

the next five years as they are unable to compete with stronger, more established industries from other countries such as China[201]. This is linked to the fact that many of the textile industries had been trading with the Multi-Fibre Agreement in place. However, this agreement ended in 2005.

In the early 1970s the EU and U.S decided to continue their policy of restricting apparel and textile imports from developing countries, mainly Asia, through a broader agreement known as the Multi-Fibre Agreement (MFA)[202]. The MFA was a complex system of country- and product-specific quotas on textiles and clothing; it was an institutionalized aberration under the General Agreement on Tariffs and Trade (GATT)[203]. The Multi-Fibre Agreement was set up in 1974 as a set of formal quota agreements and restrictions, governing textiles and the clothing trade between developing countries and the developed world[204]. There are a number of reasons cited for the introduction of the MFA, although the most widely accepted, is that of the developed world using it as a form of protectionism to secure their own textile industries against the threat posed by low-cost competition from less developed countries[205]. The AGOA agreement is not affected by the MFA. AGOA trades outside the boundaries of this restriction. This means that while other textile industries from developing nations are hindered, because essentially their market and therefore demand has decreased, African countries under AGOA have in fact increased their textile market and demand. AGOA has created an opening for Asian textile companies to trade freely to the US market without the restrictions of the MFA. Asian companies are able to open subsidiaries in African countries and are eligible to full access of US markets under the AGOA umbrella.

It can be argued that the growth of a textile industry in Sub-Saharan Africa is especially important in light of the phase-out of the Multi-fibre Agreement (MFA) quota regime in January 2005[206]. When quotas are finally eliminated, Africa will be

[201] Loc cit
[202] Hurreeram, D and Little, D: International Apparel Trade and Developing Economies in Africa, International Journal of Social Economics, Vol. 31, No. 1/3, 2004 pp 131-143
[203] Debapriya Bhattacharya and Kimberly Elliott, Adjusting to MFA phase out: Policy Priorities Center for Global Development, 04/28/2005
[204] Economic Essays: Multi-Fibre Agreement, 2009, http://www.ukessays.com/essays/economics/multi-fibre-agreement.php
[205] Ibid pg1
[206] Danielle Langton, AGOA III: Amendments to the African Growth and Opportunity Act, CRS Report for Congress, April 2004

competing more directly with Asia for the U.S. apparel and textile market, though they will remain eligible for tariff preferences[207]. An important factor with the expiry of the MFA is Asian MNCs that have invested in Africa, are now able to trade from their host nation. This will mean that if it is at a lower production cost and more efficient to export products from their own country, the MNC may withdraw from the African nation. If this does occur, the question remains as to whether or not there has been a transfer of knowledge, skill and technology to the African population. If this is the case, then the domestic textile industry may grow and continue. If not, this will leave African countries is a worse state by the hindering development of skills and technology in other sectors of the economy. This will be taken into account and assessed in the research paper.

From the above it can be seen that even though there has been special rules in the AGOA agreement for the textile and apparel industry, the exports to the U.S have declined (as mentioned above). A large extent of that may be because of the end of the MFA. The data suggests that this is the case, as the MFA ended in 2005, the precise year that textile and apparel exports started to decline. This calls to question whether or not the AGOA agreement has helped to develop these countries. The data also suggests that these sectors are not internationally competitive and are struggling to compete with other textile giants such as China. This will be explored in greater detail in the case studies, beginning with AGOA in the Namibian Economy.

What is interesting to note from the above, is that 39 of the 48 African countries are eligible for the AGOA agreement. This means that this agreement has become an important and popular one among the African nations. The AGOA agreement has also been extended to 2015, resulting in that many countries will still gain from free access to US markets. However, by the same token, there is a time limit on the agreement and whether or not these industries will be able to compete in the international economy after the agreement expires, will remain to be seen. Whilst it has been shown that the total amount of trade between the US and Africa has increased dramatically after the implementation of AGOA, it is not clear as to whether or not this is because of oil producing economies, such as Angola, who have recently

[207] Ibid pg 4

become eligible for the AGOA agreement. It also calls to question as to whether or not it is specific sectors (namely oil, mineral and motor vehicles) and countries (namely, Nigeria, Angola and South Africa) that have caused this increase in trade. In order to establish this, this research paper looks at a different sector, namely, the textile industry in non-oil producing economies: Namibia and Lesotho in order to answer this question. AGOA is viewed differently by both African countries and the US. This difference of interpretation in the success and implementation of the AGOA agreement will have an effect in the overall success of the agreement. The different views have resulted in the two trading partners not always having been on the same page in terms of what has been needed and required from the agreement. These different perspectives will now be discussed and taken into account throughout this paper. Whether or not this has had an influence on the success or failings of the agreement will be discussed in chapter 6.

4.1: The United States' perspective on AGOA.

"By any measure, AGOA has been an outstanding success… I have been extraordinarily impressed by the advances that African governments and businesses have made in recent years."

-- Robert B. Zoellick, United States Trade Representative

AGOA is seen by the United States as the cornerstone of the Bush Administration's Trade and Investment Policy toward Sub-Saharan Africa, which is, promoting free markets, expanding U.S.-African trade and investment, stimulating economic growth, and facilitating Sub-Saharan Africa's integration into the global economy[208]. AGOA has sought to give opportunity to the US to broaden trade in Africa, aid in the creation of domestic jobs, whilst aiming at extending its trade with Africa in order to rival the European Union's dominance within the region, therefore increasing its mere 8% of the African market compared to the EU's staggering 41%[209].

[208] A Report Submitted by the President of the United States to the United States Congress Prepared by the Office of the United States Trade Representative Zoellick: 2003 COMPREHENSIVE REPORT ON U.S. TRADE AND INVESTMENT POLICY TOWARD SUB-SAHARAN AFRICA AND IMPLEMENTATION OF THE AFRICAN GROWTH AND OPPORTUNITY ACT, The Third of eight annual reports, May 2003, pp1-133

[209] Loc cit

AGOA provided the stability that the U.S was looking for in the African markets by imposing the conditionality's[210]. It promised debt relief to African countries that pursued free market liberalisation and democratic reform[211]. As a result, the United States is Sub-Saharan Africa's largest single country export market, accounting for 20 percent of the region's total exports in 2002[212]. According to U.S congressman Chris Smith, two-thirds of any African country's economy lies in its informal sector and claims that, as in the United States, small and medium enterprises are the engine of job growth[213]. Smith argues that if not for the ability of small business to create jobs, many more Africans would be unemployed[214]. The U.S. government has attempted to enhance the capacity of African small- and medium-sized enterprises since the passage of the original AGOA legislation in 2000[215].

As a result, in 2005, some $199 million US-Dollars in trade-capacity building was spent to accomplish this goal and four hubs for global trade competitiveness were established in Botswana, Ghana, Kenya and Senegal. Smith reported, however, that African small- and medium-sized enterprises have continued to lag in their ability to enjoy the benefits of AGOA despite these efforts. In recognition of this continuing problem, Smith stated he is co-sponsoring legislation to address specifically the needs of African small- and medium-sized entrepreneurs[216]. This legislation, known as the Assistance for Small and Medium Enterprises in Sub-Saharan African Countries Act of 2005, has made a number of interventions that would enable African entrepreneurs to become more successful exporters in the global economy[217].

It is seen from the above that, from the US perspective, by creating tangible incentives for African countries to implement economic and commercial reform policies, AGOA has contributed to better market opportunities and stronger commercial partners in

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[210] Loc cit
[211] Loc cit
[212] Robert B. Zoellick, US Senator Lugar Applauds Passage of African Trade Bill, United States Trade Representative 2004 (accessed June 2008) http://www.agoa.info/?view=.&story=news&subtext=357
[213] Charles W. Corey, Small African Businesses Lag in Reaping AGOA Benefits Congressman Smith co-sponsors law to help small entrepreneurs, Washington File Staff Writer, 12 June 2006 http://www.america.gov/st/washfile-english/2006/June/20060612142552WCyeroC0.4297296.html
[214] Loc cit
[215] Loc cit
[216] Loc cit
[217] Loc cit

Africa for U.S. companies[218]. Although AGOA has pitfalls, the U.S still believes, that with the right legislation in place, the AGOA agreement will be able to rectify this. While the U.S has helped to develop the African continent, to a large extent this trade agreement has contributed to increase their trade with Africa in order to rival the EU's investment into Africa. This is also seen in the fact that the U.S has kept close ties with countries that have provided them with 80% of their trade, namely Nigeria, Angola, South Africa, Gabon and Guinea Bissau[219]. What is interesting about these countries, in particular, is that most of these countries are mineral-enriched countries with two of them, namely Nigeria and Angola, being major oil-producing countries. This calls to question as to whether or not the U.S has been selective when trading through AGOA, choosing countries that only benefit them. Whether or not Namibia and Lesotho is left behind because of that reason, will be discussed at a later period.

What is also interesting to note is that if the U.S congress establishes that the new imports reduce employment in the U.S, then the Act can be revoked[220]. This is against WTO regulations that explicitly prohibit unemployment as an excuse for trade barriers[221]. It also contradicts the actual act which encourages Africa and the U.S to work together towards meeting WTO regulations[222]. This shows that although the agreement is in place, the U.S is able to decide the longevity of the agreement, providing the U.S with greater control over the act. Another form of control is also seen whereby the US president is able to decide whether or not an African country is eligible and has met U.S requirements so as to be able to take advantage of the Act. The African states have thus been put at an extreme disadvantage. Their perspective on the AGOA agreement will be concentrated on in a further section.

[218] International Trade Administration: Frequently Asked Questions about AGOA, US Department of Commerce June 2008 http://www.agoa.gov/faq/faq.html#q1
[219] David Malone, Yuen Foong Khong, op cit pg362
[220] Thompson, C: op cit pg 322
[221] Loc cit
[222] Martin, W: Beyond Bush: The future if popular movement s and US Africa Policy, Review of African Political Economy, Vol.31, No.102, Agendas, Past and Future, Dec 2004, pp585-597

4.2: Africa's perspective on AGOA

"We live in a difficult, competitive and complicated world today. While the potential for success is great, that for failure is even greater. It is thus right that we should gather [in Washington] to find ways to positively enhance our commercial linkages with the U.S. especially and with each other."

-Ghanaian Minister of Trade, Dr. Kofi Apraku

Generally, the states in Africa welcome assistance from the U.S. and the international community[223]. A sampling of African views on U.S. trade initiatives by the Africa-America Institute suggests that the U.S. needs to broaden and formalize the process by which it consults with Africans about policies affecting them[224]. There is a general perception that Africa and its economic concerns have been marginalized in the globalization process, essentially disassociating Africa from the global economic system[225]. In order to combat this, many African countries have turned to the AGOA agreement to help link them to the globalised world and pull them out of their poverty trap.

Although 39 African countries are eligible under the AGOA agreement, many African nations claim that AGOA only provides market access for low wage, low skill workers and for raw materials-based export production[226]. More important needs, in this view, would be the cancellation of external debts, increased U.S. developmental assistance and expanded market access for a wider range of African products[227]. Five African presidents have criticised the economic criteria they must meet before their nations can qualify for a preferential trade deal that gives Africa greater access to the U.S. market[228]. Speaking to reporters after meeting with U.S. President George W. Bush at the White House, the leaders of Botswana, Ghana, Mozambique, Namibia and

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[223] Lieutenant Colonel David E. Glover, U.S Economic Policy in Sub-Saharan Africa: Are we pointed in the right direction?, USAWC Strategy Research Project, Pennsylvania, 2004
[224] Ibid pg 10
[225] Loc cit
[226] Cobb, C: Africa: African Ministers in U.S for GOA Trade Forum, 2001, http://allafrica.com/stories/200110260440.html
[227] Ibid pg 1
[228] TRALAC: African Leaders complain of AGOA red tape, 2005 http://www.agoa.info/?view=.&story=news&subtext=534

Nigeria told reporters that they have to be "poor enough" to export to the United States under the controversial African Growth and Opportunity Act (AGOA)[229]. President Festus Mogae of Botswana said that slow progress in certifying African countries for the deal was hurting their economies[230]. He stated that the leaders raised the issue with Bush and that they "complained bitterly about bureaucracy on that side"[231]. While there have been criticisms by the African nations, many nations have agreed and advocated the eligibility criteria. This is seen for example with Ghana, who recognized the necessity of fulfilling certain economic and development criteria in order to reap the rewards of AGOA[232]. Today, the Ghanaian government supports the proposed amendments to the AGOA legislation[233].

In many African countries governments have responded more to pressure from donor communities than from political pressure by their own people[234]. Therefore, even though there have been criticisms about the eligibility criteria, it is in fact a good thing, as it forces countries to change their economies and political stability in order to participate in the AGOA agreement. If African nations respond more to pressure from outside sources then it stands to reason that the eligibility criteria is a good thing, as seen with the Ghana economy. The criteria provide the outside potential FDI with the assurance that the African economy is more stable and thus a lucrative environment for investors.

Nigerian foreign minister, Ngozi Okonjo-Iweala, claimed that "Africa is changing and both economic and political landscapes are improving"[235]. This is the case for some African nations, such as Nigeria. Four African nations, oil-producers Nigeria, Angola and Republic of Congo, along with South Africa reaped 84 per cent of AGOA's trade benefits in 2008[236]. Countries such as Tanzania, on the other hand, have not been reaping as many benefits. Tanzania's total AGOA-covered sales to the US market

[229] Ibid pg 1
[230] Loc cit
[231] Loc cit
[232] The Corporate Council on Africa The Africa Journal: Ghana in AGOA's eye, 2003, http://www.modernghana.com/news/113206/1/ghana-in-agoas-eye.html
[233] Ibid pg 1
[234] Glover, D: op cit pg 10
[235] TRALAC: Africa open to Business, 2006, http://www.agoa.info/?view=.&story=news&subtext=700
[236] Kevin Kelley: Africa: AGOA's poor show blamed on issues 'unique' to the continent, 2009, http://allafrica.com/stories/200907061424.html

have declined in recent years from $3.7 million US-Dollars in 2006 to just $2 million US-Dollars last year[237]. Uganda has followed the same downward path, with its AGOA exports dropping from $2.5 million US-Dollars in 2006 to $1 million US-Dollars in 2008[238]. Thus from the African perspective there are mixed reviews as to the success of the AGOA agreement.

African-American relations appear set for a more beneficial phase as the Barack Obama administration has unfolded its economic, social and political agenda for the continent[239]. American Assistant Secretary of State for Africa in the State Department, Johnie Carson, claimed that "The ties that bind the United States and Africa are stronger and more enduring now than they have ever been"[240]. He argued that the links that connect Africa and the United States are built on a "rock-solid foundation," noting that more than 13 per cent of America's population is of African descent and that that number continues to grow because of immigration laws that have opened the door to a new generation of African immigrants[241]. However, while America has strengthened ties with the oil-producing countries such as Nigeria and Angola, it still remains to be seen as to the rest of Africa.

From the above it shows that African leaders have mixed reviews on the AGOA agreement. While some have been satisfied with the results, such as Ghana, others such as Tanzania have not. What is interesting to note though, is the fact that US imports of petroleum products from Africa totalled $66 billion US-Dollars last year, which accounted for 92 per cent of all AGOA-related trade[242]. This raises the question as to whether or not the AGOA agreement has been beneficial to economic growth in other industries besides oil and petroleum products. In order to establish this, we move onto AGOA within the Namibian economy, particularly in the textile industry.

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[237] Ibid pg 1
[238] Loc cit
[239] TRALAC, Why the U.S is 'boosting ties with Africa'- Official, 2009 http://www.agoa.info/?view=.&story=news&subtext=1070
[240] Ibid pg 1
[241] Loc cit
[242] Kevin Kelley: op cit pg 1

Chapter 5: AGOA specifically in the Textile Industry

5.1: AGOA and Namibia.

"AGOA has not yielded the desired results as far as American investment is concerned despite the incentives provided by African governments to potential investments"

-- President Pohamba of Namibia (19.11.2007)

Namibia is a multiparty, multiracial democracy with a president who is elected for a 5-year term[243]. The constitution provides for private ownership and for human rights' protections, and states that Namibia should have a mixed economy and encourage foreign investment[244]. It had a population of 2.1 million people in 2008[245]. The history of Namibia has been one of turmoil with a legacy of apartheid- colonialism[246]. This, combined with the pressures of globalisation, has created a formidable barrier to meaningful socio-economic development[247]. The SWAPO government adopted "a relatively hands off approach" to the economy in an attempt to promote business confidence, reduce political instability, and prevent flight of skills and capital[248]. Namibia as a middle-income country with an income per capita of $1 955 US-Dollars and a total national population of less than 2 million is still an economy largely based on the exploitation of natural resources such as diamonds, agriculture and fishing[249]. It is a disproportionate society with one of the highest levels of income inequality[250]. Poverty is delineated along functional groups and by urban-rural dualism, with social cohesion still being a highly sensitive issue[251].

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[243] Bureau of African Affairs: Background Note: Namibia, U.S department of State, 2008 http://www.state.gov/r/pa/ei/bgn/5472.htm
[244] Ibid pg 1
[245] Loc cit
[246] Gilton Klerck, Industrial Relations in Namibia since independence, Journal of Employee Relations, Vol.30, No. 4, 2008 pp 355-371
[247] Ibid pg357
[248] Loc cit
[249] OECD: Namibia, Organisation for Economic Co-operation and Development 2002 http://www.oecd.org/dataoecd/58/28/1826046.pdf.
[250] Ibid pg3
[251] Loc cit

According to the latest Trade Tariff Restrictiveness Index (TTRI), Namibia's tariff barriers are slightly lower than the average country in Sub-Saharan Africa[252]. Over one third of all MFN imports in 2006 were duty free. According to the World Bank's market access TTRI (including preferential rates), Namibia ranks 3rd in the world, as its exports face very low tariff barriers[253]. In fact 51.2% of its exports are duty free[254]. The Namibian economy has a modern market sector, which produces most of the country's wealth, and a traditional subsistence sector[255]. Although Namibia's gross domestic product (GDP) per capita is relatively high among developing countries it practises one of the most unequal income distributions on the African continent[256]. Despite the fact that the majority of the population depends on subsistence agriculture and herding, Namibia has more than 200,000 skilled workers, as well as a small, well-trained professional and managerial class[257].

Table 5: World real GDP growth (%)

Region	2005	2006	2007
World	4.8	5.1	5
United States	3.1	2.8	2.0
Euro Area	1.5	2.8	2.6
Japan	1.9	2.4	2.1
Developing Asia	9.2	9.9	10.
China	10.4	11.6	11.9
Developing Countries	7.5	7.9	8.0
Africa	5.6	6.1	6.3
SSA	6.0	6.6	6.8
Angola	20.6	18.6	21.1
South Africa	5.1	5.4	5.1

[252] World Bank: Namibia: Trade Brief, 2007 http://info.worldbank.org/etools/wti2008/docs/brief134.pdf.
[253] Ibid pg 1
[254] Loc cit
[255] Bureau of African Affairs: op cit pg 1
[256] Loc cit
[257] Loc cict

Namibia	4.8	4.1	3.6

-Table from Bank of Namibia, Economic Outlook, September 2008

What is important to note from the above table is the fact that even though indicators suggest that the developing world is growing at a faster GDP rate than that of the developed world, the third world needs to grow annually at a much quicker rate than what is shown in the above table. China is reaching this percentage, thereby increasing its influence in the world economy. Countries, such as Angola, that are growing at an exceedingly great rate, are mainly oil-producing countries. The increase in GDP is therefore, mainly from primary sources such as minerals. Angola has thus not diversified their economy. Namibia is growing at a lesser rate than that of the average Sub-Saharan African nation. It therefore, needs to extend its products and exports in order to grow. The question is, however, that whether or not AGOA has aided in this, will be answered in the next two sections. However, as mentioned above, the HDI is now more commonly used in order to establish a country's growth.

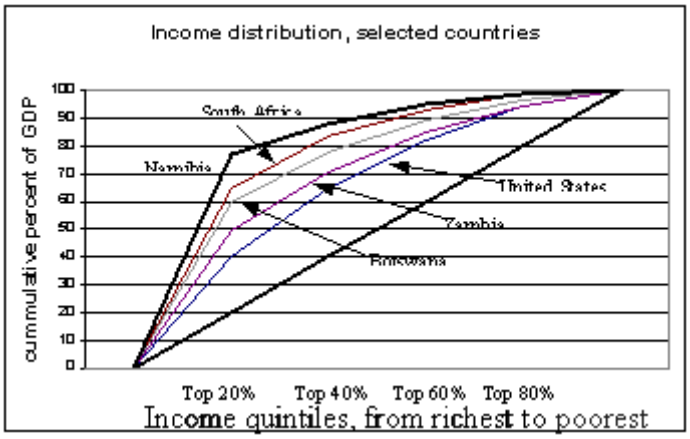
Table 6: Namibia's Human Development Index from 2003 to 2007

	2003	2004	2005	2006	2007
HDI (%)	0.607	0.607	0.650	0.634	0.650

-Data from UNDP: Human Development Reports

From the above table it can be seen that Namibia's HDI has, in fact, for the most part increased. While it is apparent that there is development, this overall development is very slow. It also raises the question as to whether or not the growth is directly linked to the AGOA agreement. AGOA may have helped increase the living standard of the Namibian people by alleviating poverty through increasing employment in the country. This is also linked with Namibia's income distribution.

Table 7: Income inequality of Namibia



-Table from USAID Namibia Overview-2006

The straight diagonal line represents equal distribution of income, i.e. everyone earns the same[258]. The further away from the diagonal line, the more unequal the distribution[259]. It can be seen that the top 20 percent of earners along the diagonal line earn 20 percent of GDP, as equality would dictate[260]. In the U.S., the top 20 percent earn just over 40 percent of all GDP[261]. Within the region, the percentages of GDP received by the top 20 percent of earners are: 50 percent in Zambia, 60 percent in Botswana, 65 percent in South Africa, and 77 percent in Namibia, the highest in the world[262]. This inequality is usually measured by the GINI Coefficient.

Namibia can be described as a resource-rich economy in the extractive industry base, yet, noting the short life span of these resources, diversification becomes more important in realizing a sustainable growth path[263]. Namibia's total share of ACP exports to the EU amounted to 2% in 1998, up from 0.86% in 1992. In 1998, 67% of the exports to the EU from Namibia consisted of agricultural products, indicating that there is also room for diversification of exports[264]. However, according to the National Accounts (1996-2006), this has changed with the prominent sectors

[258] USAID: Namibia Overview, 2006 http://www.usaid.gov/na/overview2.htm
[259] Ibid pg1
[260] Loc cit
[261] Loc cit
[262] Loc cit
[263] Professor John Odada, "Overview of the Structural Transformation of the Namibian Economy" in Thematic Focus for BoN Annual Symposium Structural Transformation of the Namibian Economy: Insight from other Countries, Bank of Namibia 2008 http://www.bon.com.na/content/symposium/focus.aspx
[264] Rosa Endjala, Nino Frodema and Klaus Schade: The Namibian Economy, The Namibian Economic Policy Research Unit (NEPRU), Windhoek Namibia, 2006

contributing significantly to GDP during the period 2001-2006 have been mining (10.9%), wholesale and retail trade (10.9%), manufacturing (10.7%) and real estate and business services (9.1%)[265]. What is interesting to note is the fact that over 50% of Namibia's imports come from South Africa and 31.6% of are exported to SA[266]. However, whether or not the AGOA agreement had anything to do with this will be dealt with later in the research paper.

Namibia is the fourth largest exporter of non-fuel minerals in Africa and the fifth largest producer of uranium in the world[267]. It is both a part of the Southern African Development Community (SADC), Southern African Custom Union (SACU) and the AGOA trade agreement. Despite the AGOA agreement, 34.9% of Namibians live below the poverty line ($1 US-Dollar a day) and 55% live on $2 US-Dollar a day[268]. The unemployment rate of Namibia was 35% in 2008 and inflation was around 7.0%[269]. AGOA has helped alleviate poverty by increasing employment within the country and creating new sectors which Namibia is able trade in. However the above statements suggest that AGOA has not created these new sectors or an increase in employment. This extreme poverty raises the question as to whether or not this agreement has helped to diversify the economy and alleviate poverty in this country.

5.2: The AGOA agreement in the Namibian Textile Industry

In December 2001, Namibia received its eligibility certificate and began to take advantage of the AGOA agreement[270]. Many argue that AGOA is not a trade agreement, but rather a unilateral trade preference programme that offers Sub-Saharan African countries access to the U.S market[271]. Namibia's main export to the U.S

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[265] http://www.bon.com.na/content/symposium/focus.aspx
[266]SADC: Namibia Country Report, Trade Preference review, 2003 http://www.sadctrade.org/files/TPR%20Namibia.pdf.
[267]CIA: Namibia, World Fact Book, 2009 https://www.cia.gov/library/publications/the-world-factbook/geos/wa.html
[268] Ibid pg 1
[269] Bureau of African Affairs: op cit pg 2
[270] Loc cit
[271] Osman Aziz, The African Question: AGOA and Missed Opportunities: How China's Investment Paradigm is Winning the Day in Africa, January 9 2008 http://itssdeconomicfreedom.blogspot.com/2008/01/african-question-agoa-and-missed.html

includes energy related products, minerals and base metals, textiles and apparel[272]. Of these products, the export of minerals, metals, textiles and apparel has been increasing since 2002[273]. Mining accounts for 20% of GDP[274]. Namibia is the fourth-largest exporter of nonfuel minerals in Africa and the world's fifth-largest producer of uranium[275]. Under AGOA II Namibia, as mentioned before, was able to qualify for 'special rule'. Even though Namibia's per capita GNP exceeds $1,500 US-Dollars (making it not a Least Developed Country, LDC) the African Investment Incentive Act continues to grant least-developed status to them.

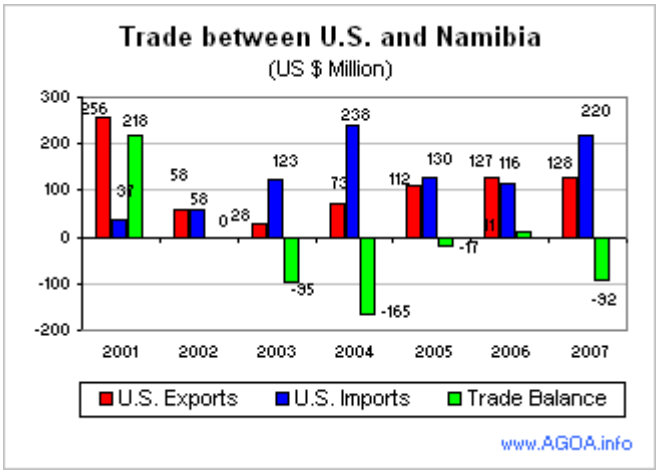
According to data from the United States International Trade Commission (USITIC), Namibia's clothing sector has been the country's main beneficiary of the preferential access to the U.S market brought about by AGOA[276]. Whilst historically, the textile and clothing industry played a critical role in Industrial Development such as England, this may not necessarily be possible in present day economic growth, especially in Sub- Saharan African countries like Namibia[277]. Reasons for this include a lack of protection of infant industries due to trade liberalisation regimes, stiff competition in the global market and the competitive advantage of other countries, like China, heightened by the removal of the quota system as mentioned before[278].

Since 2000, Namibia's total exports to the U.S have grown three-fold from $42 million US-Dollars to just over $123 million US-Dollars in 2003[279]. Namibian exports to the U.S reached the highest levels in 2004 at US$238 219 million US-Dollars, up from US$ 123 249 US-Dollars million during the previous year[280]. Namibia's total exports to the U.S in 2007 were $116,383 million US-Dollars; however US imports

[272] Vitalis Ndalikokule, Ben Biwa, Esau Kaakunga: HOW CAN NAMIBIA FURTHER BENEFIT FROM AGOA?, Bank of Namibia, Research Department, Windhoek, Namibia, 2006
[273] Ibid. pg 3
[274] Loc cit
[275] TRALAC: Country Information –Namibia, AGOA. INFO, June 2008 http://www.agoa.info/index.php?view=country_info&country=na
[276]TRALAC: Namibia's Clothing Sector its main AGOA Beneficiary, AGOA. INFO June 2008 http://www.agoa.info/?view=.&story=news&subtext=290
[277]LARRI, An assessment of the Growth and Opportunity Act (AGOA) and its implications for Namibia, *Prepared by the Labour Resource and Research Institute (LaRRI) for the Namibia Trade and Poverty Programme*, July 2007 pp1-54
[278] Ibid pg 48
[279] TRALAC: Country Information: op cit pg 1
[280] Loc cit

into Namibia in 2007 were $219,743 million US-Dollars[281]. This means that US imports outweigh Namibia's exports by a difference of $103,361 million US-Dollars.

Table 8: U.S and Namibia total trade



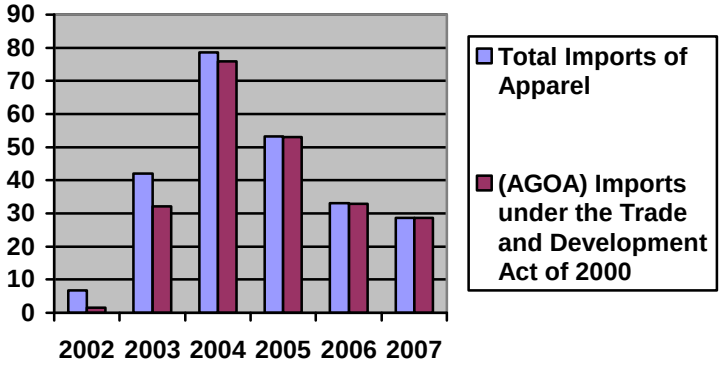
The bulk of Namibia's 2002 exports to the U.S. consisted of 'energy-related products' followed by 'minerals and metals', 'textiles and apparel' and 'agricultural products' (the latter due to exports mainly from the fisheries sector)[282]. What is significant is that textile and apparel only come third on the list of exports to the U.S, yet it is the only sector that is covered under the AGOA umbrella

Since becoming AGOA-eligible, Namibia has benefited from high-profile foreign investment by Asian textile companies, resulting in new factories, thousands of new jobs, and unprecedented levels of new apparel exports[283]. This, combined with the fact that the Namibian government was prepared to bend laws and make huge financial concessions, and the United States' attempt to encourage African countries to trade with it, made the Namibian economy a perfect atmosphere for MNCs to

[281]TRALAC: Total Trade between AGOA Countries and the U.S. AGOA.INFO, March 2008 http://www.agoa.info/index.php?view=trade_stats&story=all_trade
[282] TRALAC: Country Information- Namibia, http://www.agoa.info/index.php?view=country_info&country=na
[283] Art Westneat, TRADE AND MARKET ACCESS United Nations ECOSOC High-Level Segment Preparatory Meeting, Private Sector Advisor USAID AFR/SD/EGEA Washington, March 17-18 2004 http://www.un.org/docs/ecosoc/meetings/hl2004/CD2004/17-18%20March/statement%20westneat.pdf.

invest in[284]. Ramatex Namibia remains the highest-profile AGOA-related investment, having invested nearly $200 million US-Dollars in its vertically integrated textile and garment manufacturing plant. Between Ramatex and Rhino Garments, about 6000 jobs were created[285]. According to the LARRI institute, before the Ramatex investment, Namibia did not have a developed textile and clothing industry[286]. The industry, in fact, consisted of very few manufacturers who produced on a small scale and did not contribute substantially to employment creation or to GDP[287]. The Ramatex investment changed this scenario. However, Ramatex's contribution to Namibia has only been accurately captured in terms of employment creation while its contribution to GDP is or has not been captured by the NPC or the Bank of Namibia[288].

Table 9: Namibian textile exports to the U.S (unit: $'000)



	2002	2003	2004	2005	2006	2007
Total Imports of Apparel	6.697	41.952	78.654	53.200	33.087	28.600
(AGOA) Imports under the Trade and Develop Act of 2000	1.537	32.127	75.940	53.058	32.996	28.578

[284] SEEN Environmental Learning: Ramatex Textiles, Globalisation sheet 7, 2008 http://www.nied.edu.na/divisions/projects/SEEN/SEEN%20Publications/Environmental%20Information%20Sheets/Globalisation/7.%20Ramatex%20Textiles%20a86A7F.pdf.
[285] Westneat, A: op cit pg1
[286] LARRI, An assessment of the Growth and Opportunity Act (AGOA) and its implications for Namibia, *Prepared by the Labour Resource and Research Institute (LaRRI) for the Namibia Trade and Poverty Programme*, July 2007 pp1-54
[287] Ibid pg 6
[288] Loc cit

- Data from US Department of Commerce, Office of Textiles and Apparel (OTEXA)

Out of the total exports to the U.S from Namibia ($238 219 million US-Dollars in 2004 and $116,383 million US-Dollars in 2007) only $78.654 million US-Dollars in 2004 and $28.600 million US-Dollars was from the textile and apparel industry (the main sector under AGOA). The above table shows that out of Namibia's total imports of apparel to the US over the years, more of the imports fall under AGOA. This means that Ramatex (the only company under AGOA) has a monopoly within the textile industry in Namibia. Smaller companies that have been unable to compete against the Malaysian giant have thus fallen away

However, the LARRI study revealed that Ramatex is currently the only company that is exporting to the USA under AGOA and thus the only beneficiary in Namibia. There are many reasons as to why Ramatex is the only company benefiting under AGOA[289]. These include the fact that Ramatex is a big Multinational Corporation whose operations is fully integrated, having the equipment, manpower, already established business contacts and experience to meet the requirements and demands of big U.S retailers[290]. If this is the case and the textile industry is the main sector that is benefiting from the AGOA agreement, then what has the AGOA agreement actually done to help economic development in Namibia?

By the end of 2004, the total number of Export Processing Zones (EPZ) jobs had increased to about 10,000 largely due to the Ramatex investment in textiles and garments[291]. Ramatex thus contributed to an increase of about 40% in manufacturing jobs[292]. However, in terms of overall employment, the EPZ jobs (including Ramatex) account for only about 2% of all jobs and thus did not contribute significantly to reduce Namibia's high rate of unemployment[293]. As mentioned before, Ramatex

[289] Ibid pg 7
[290] Loc cit
[291] Jauch, H: 'Africa's Clothing and Textile Industry: The Case of Ramatex in Namibia' in The Future of Textile and Clothing Industry in Sub-Saharan Africa, Herbert Jauch and Rudolf Traub-Marz (eds), Friedrich-Ebert-Stirtfung, Germany, 2006
[292] Ibid pg 217
[293] Loc cit

employs about 8,000 people but over 2,000 of the Ramatex staff members are migrant workers from Asia, mainly China[294]. This raises the question as to what type and quality of jobs the Namibian workers receive, which will be answered in the next section.

5.3: The significance of the AGOA agreement on the Namibian economy

In 2001 it was estimated by Phyllis Shearer Jones that 90% of Namibia's goods have the potential to qualify for the zero-rating until 2008 under AGOA[295]. This, however, has not been the case. Namibia stood 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[296]. 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's decision to invest in Namibia[297]. This shows how the AGOA agreement has diversified the economy. There exists a completely new sector that was previously not there.

Although Ramatex is the only company that falls under the AGOA, there have still been some benefits to this trade agreement. This agreement has created a new industry in a country that until 2001 did not have a developed textile industry, as mentioned before, and has shown that to some extent there has been diversification within the Namibian economy as a direct result of the AGOA agreement. Combined with this fact, has been the creation of the infrastructure which was invested in this industry. Although some critics argue that investment into the infrastructure wastes public funds as only one company is benefiting from AGOA, I disagree. The cornerstone of any emerging economy has often been seen as a strong foundation for infrastructure. This is something concrete that cannot really be taken away. The creating of roads,

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[294] Ibid pg 219
[295] EDGAR BRANDT, Namibia urged to take advantage of AGOA, The Namibian newspaper March 13 2001 http://www.namibian.com.na/2001/March/marketplace/01D9E145CC.html
[296] Ali B. Ali-Dinar, An Assessment of the Africa Growth and Opportunity Act (AGOA) and its Implications for Namibia, July 2007 http://www.africa.upenn.edu/afrfocus/afrfocus012708.html
[297] Loc cit

telecommunications and other forms of infrastructure, even though created for one industry, can be used for other sectors.

Before AGOA was put in place, there was little to no FDI in the Namibian Textile Industry which changed due the Malaysian textile giant Ramatex's investment into Namibia. This huge company came in because of the AGOA agreement. They employ 6000 people and a further 2000 at its two adjacent factories[298]. The capacity to produce everything from the textile yarn to the finished garment inside Namibia has been achieved[299]. Vertical integration has therefore been achieved, thus diversifying the economy. This knowledge has been passed onto the Namibians as Ramatex has employed local people. Therefore, this technology cannot be taken away. The aim of FDI, as mentioned earlier, is to increase technology and knowledge into the host country. Without AGOA Namibia would not have achieved this, as this form of FDI would not have occurred. Although the exact figure for Ramatex's contribution has not really been established, one cannot take away from the fact that 8000 jobs have been created.

However, even though there have been some sustainable developments because of AGOA, what significance has the AGOA agreement really had on the Namibian economy? Firstly, Ramatex is still the only company that is under the AGOA umbrella. This is because, as mentioned above, Ramatex is a big, well-established Multinational Corporation whose operations are fully integrated[300]. 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 utilize the opportunities presented under AGOA[301]. The result is that the AGOA agreement is not helping domestic companies but rather MNCs which already have established businesses. This, to some extent is in fact, hindering growth as local manufacturers are struggling to keep up, as they have to pay normal quota and tariff tax, by not being under the AGOA umbrella.

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[298] IRIN, Namibia: Textile Industry faces multiple challenges, 2007 www.irinnew.org/PrintReport.aspx?ReportId=52949
[299] Loc cit
[300] Mwilima, N, Has Namibia benefited from AGOA? The Namibian newspaper, Dec 2007 www.namibian.com.na/2007/December/columns/07D3A615...
[301] Ibid. pg 3

Another challenge that is facing Namibia is the fact that the Multi-Fire Agreement ended in the beginning of 2005[302]. Now quota restrictions that have been placed on certain products from Asian countries are no longer applicable[303]. Due to the expiration of the MFA, apparel producing states now face stronger competition from large-scale apparel exporting states such as China and India[304]. At the same time, cheap Chinese exports to Africa are also damaging local apparel production[305]. This means that the Malaysian giant Ramatex does not need to own a factory in Namibia, where exporting goods to the US is expensive due to the lack of infrastructure, if they can export from Asia, which has a more sophisticated form of infrastructure. This in fact was actually seen in 2005 when one of Ramatex's subsidies, Rhino garments, closed down resulting in 1 600 jobs being lost[306].

AGOA has not cultivated the growth of domestic textile companies; therefore, if Ramatex decides to close its doors, the benefits of the AGOA agreement actually cease to exist. To counteract these problems, Namibian textile and garments manufacturers developed an initiative to deal with the challenge by forming a company called the Namibia Garment and Market Company (NGMC)[307]. The NMGC was formed in June 2006 with the main aim of bringing together textile and garment manufacturers to assess possibilities for growth and promotion of the textile and clothing industry in Namibia[308]. However, the NGMC had not yet started exporting to the US as they were still looking for proper facilities and equipment to be able to meet the requirements and demands of US retailers[309]. This shows that besides Ramatex, the AGOA agreement has not been significant in the Namibian economy.

As mentioned before, 2000 of Ramatex's workers are migrant workers mainly from Asia. The reason for this is that there is a lack of skilled workers in Namibia and

[302]Basu, K: Winners and Losers in the Textile Shake-Up, 2 March 2005 http://news.bbc.co.uk/2/hi/south_asia/4294679.stm
[303] Loc cit
[304] Stephen Hayes: AGOA- A five year Assessment, Corporate Council on Africa, 2005 http://www.africacncl.org/downloads/October_20_Congressional_Testimony.doc.
[305] Ibid pg 1
[306] Shigwedha, A: Rhino Garments to Shut, The Namibian newspaper April, 2005 http://www.namibian.com.na/2005/April/national/05A5243C92.html
[307] Africa Studies Center: Africa: Footloose Industry and Labor Rights, Jan 2008, http://www.africa.upenn.edu/afrfocus/afrfocus012708.html
[308] Ibid pg 1
[309] Loc cit

Namibian workers take a long time to acquire the skills[310]. According to a Ramatex Manager the factory management does not want to rely on one source of workers[311]. Thus, having workers from different countries employed under different conditions prevents solidarity amongst them[312]. Chinese and Filipinos occupy most of the supervisory roles while Malaysian Chinese hold the most senior positions[313]. The textile factory earned about N$488 million in exports to the United States in 2004, of which it only spent 11 per cent on wages, according to trade data published on AGOA's official website[314]. Therefore, the quality of training and jobs is not being passed down to many Namibian locals. While one cannot take away the knowledge that the Namibians have received, as mentioned above, it stands to reason that in order for the textile industry to continue in Namibia it will constantly need outside help. This FDI is also not benefiting the Namibians directly, as seen with the payment of low wages, which may account for the high poverty rate mentioned above. In terms of the quality of jobs, it is therefore seen that AGOA has not succeeded.

This is also combined with the fact that according to the LARRI study of 2007, Ramatex, which is the biggest textile manufacturer in Namibia, invests very little in the local economy. This is based on the global trend that multinational corporations tend to have offshore accounts in countries other than where they are operating from[315]. Payment for sales from the US retailers is made to the mother company's accounts or into offshore accounts and not to an account in Namibia[316]. The transfers made to Namibia are based on the operational costs (such as wages, water and electricity etc) in the country[317]. Administrative services (export licenses etc), transport and packaging are the main ones used by Ramatex in Namibia[318]. This being the case, then even the Ramatex Company is not really benefiting the Namibian economy. As mentioned before, FDI aims to help reduce government spending as

[310] LARRI: Asian Migrant Workers for Ramatex in Namibia, ILRF, 2005 http://www.larri.com.na/files/Asian%20Ramatex%20Workers.pdf.
[311] Ibid pg 16
[312] Loc cit
[313] Loc cit
[314] The Namibian: Govt looking for Textile Investors, 2008 http://www.namibian.com.na/index.php?id=28&tx_ttnews[tt_news]=46251&no_cache=1
[315] LARRI, op cit pg 19
[316] Loc cit
[317] Loc cit
[318] Loc cit

private sectors start to invest in the economy. If this is not the case, then the FDI in Namibia, because of the AGOA agreement, has not really worked.

The last challenge in the textile and industry is that Namibian manufacturers have great costs involved in shipping products to the US due to the lack of direct shipment between Namibia and the US[319]. Thus, all exports go through South Africa. Under the AGOA agreement the African beneficiaries have to export their own goods to the US[320]. This means that these weak infant industries, even if they were under the AGOA agreement, would incur extensive transportation costs, calling to question to what extent AGOA really benefits and helps to grow these infant industries.

Finally, what is really interesting, is the fact that even though the textile and garment industry is Namibia's main benefactor under the AGOA agreement, most of Namibia's trade and exports do not come from this sector. The Namibian economy, as mentioned before, exports mainly energy-related products to the US. This product does not even fall under the AGOA agreement. What is also interesting is that 90% of all African exports to the US are petroleum products[321]. This means that the textile and garment industry is not even a huge factor in US imports. More to the point, as seen from the above, the US exports more into the Namibian economy than the Namibian economy does into the US markets. This shows that to a large extent the US has achieved its goal of increasing trade in Africa, but more to their benefit than to the benefit of the Namibian economy.

5.4: AGOA and Lesotho

"We have viewed AGOA as a ray of Hope - an initiative that is there to assist us to pull ourselves up by the bootstraps, a window of empowerment, a window of opportunity for job creation and poverty alleviation, a vehicle for attraction of foreign direct investments through the lucrative market access opportunities that it affords."

[319] Central Intelligence Agency, The CIA World Factbook 2008: 2008, Skyhorse Publishing Inc United States., 2007 pp1-832
[320] Ibid pp 438
[321] Mwilima, N, op cit pg 2

- Former Lesotho Minister of Industry, Trade and Marketing Mpho Meli Malie

Lesotho is a small, landlocked and mountainous country with a population of 2 million[322]. It has a parliamentary constitutional monarchy government with King Letsie III as the ruler[323]. The monarchy has no executive and legislative power within the country[324]. Lesotho's primary natural resource is water[325]. Its economy is based on subsistence agriculture, livestock, remittances from miners employed in South Africa, and a rapidly growing apparel-assembly sector[326]. A small manufacturing base depends largely on farm products that support the milling, canning, leather, and jute industries[327]. The structure of Lesotho's economy is as follows: Agriculture is 11.9% of total GDP, Industry is 46.9%, Manufacturing is 19.2% and the Service Industry is 41.2% of total GDP[328]. This is interesting, as most commonly African nations rely predominantly on their agricultural and mining sector which is not the case with Lesotho, where their industry and service industry are most prominent.

Lesotho does not have a formal trade policy[329]. Trade policy is guided by various statutes on trade and the SACU trade policy[330]. This means that the external environment plays a major role in mapping short-term trade policy, although most often with long-term implications[331]. Lesotho's trade policy like other SACU members is limited by their membership to SACU which has a common external tariff. Not surprisingly, Lesotho imports are sourced mainly from SA, which is the regional economic power and completely surrounds the country[332]. Imports from SA include various items used for immediate consumption, especially food items[333].

[322] CIA: Lesotho, World Fact Book, 2009 https://www.cia.gov/library/publications/the-world-factbook/geos/LT.html
[323] Ibid pg 5
[324] Loc cit
[325] TRALAC: Country Information- Lesotho, http://www.agoa.info/?view=country_info&country=ls#
[326] Ibid pg 1
[327] Loc cit
[328] World Bank: Lesotho at a glance, 2008 http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/LESOTHOEXTN/0,,menuPK:356055~pagePK:141132~piPK:141109~theSitePK:356029,00.html
[329] SADC: Lesotho- Trade Structure and Patterns, SADC TRADE, 2009 http://www.sadctrade.org/files/TPR%20Lesotho.pdf.
[330] Ibid pg 29
[331] SADC: op cit pg 29
[332] Ibid pg 30
[333] Loc cit

According to the United Nations, Lesotho is highly dependent on the health of the South Africa economy[334]. Lesotho's mineral resources are inadequate, but the country's mountain water resources are its most valuable natural asset[335]. At present, the economy is dependent on payments from Basotho migrant workers in South Africa, the production of a variety of manufactured products for the South African market, and the country's share of income from the Southern African Customs Union[336]. Lesotho is a member of the Southern African Customs Union (SACU), Southern African Development Community (SADC), African Union (AU), Commonwealth, United Nations, World Bank and International Monetary Fund (IMF)[337].

According to the World Bank real per capita GDP growth averaged 3.3 percent over 1991-2007, above the average for sub-Saharan Africa[338]. However, this growth has been inconsistent[339]. Lesotho's growth path has been closely linked to the external environment, weather conditions and the strength and weakness of the rand to which the Maloti is pegged[340]. The huge increase in 2006 was due to the stabilisation of the textile and service industry as well as a booming diamond production[341].

Table 10: Lesotho's GDP growth (%) since 2004

	2004	2005	2006	2007	2008
GDP Growth (%)	4.6	1	8.1	5	3.9

- Data from the World Bank

[334] United Nations: Lesotho, 2009 http://www.uneca.org/aisi/nici/country_profiles/lesotho/lesab.htm
[335] Ibid pg 1
[336] Loc cit
[337] DTI: Lesotho- Economic Overview, Ministry of Finance and of Development Planning, 2009 http://www.thedti.gov.za/econdb/raportt/lesothoOverview.html
[338] WB: Lesotho Country Brief, 2009 http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/LESOTHOEXTN/0,,menuPK:356039~pagePK:141132~piPK:141107~theSitePK:356029,00.html
[339] Ibid pg 1
[340] Loc cit
[341] Loc cit

The above table shows the extreme inconsistency of the Lesotho economy. Whilst on average the Lesotho economy has grown, the disparity between its highs and lows has caused extreme instability. Companies investing in Lesotho may not want to invest in a country that does not have a stable growth rate, as they may not see a return in their investment. This will mean that many firms may be hesitant to invest in Lesotho as it is not as economically stable as other countries. However, as mentioned before, GDP while factoring into the economic growth of a country, does not fully show how the country is developing in real terms in poverty eradication and human development. Thus we move onto Lesotho's HDI value.

Table 11: Lesotho's HDI Value since 2004

	2004	2005	2006	2007
HDI Value (%)	0.493	0.549	0.496	0.514

- Data from UNDP: Human Development Reports

While the HDI value did go up in 2005 it decreased again in 2006. What is interesting to note is that Lesotho's HDI value does not correlate to its GDP growth. In 2006 Lesotho had a staggering growth rate of 8.1%, yet its HDI value in fact decreased, meaning that the population is not benefiting from the increase in GDP. Thus Lesotho's income distribution is not as equal as one would think. This also means that Lesotho's education, standard of living and health is not very high. Lesotho has one of the highest Income inequality's in the world with a GINI coefficient of 63[342]. Namibia is the only country to have a wider gap between the rich and the poor with a GINI coefficient of 77[343].

Lesotho is largely open to FDI and treats foreign investors well[344]. However, the country's FDI policy and legal framework is not developed enough to enhance transparency and consistency[345]. Lesotho has been more successful than most other least-developed countries in attracting FDI - predominantly export-oriented

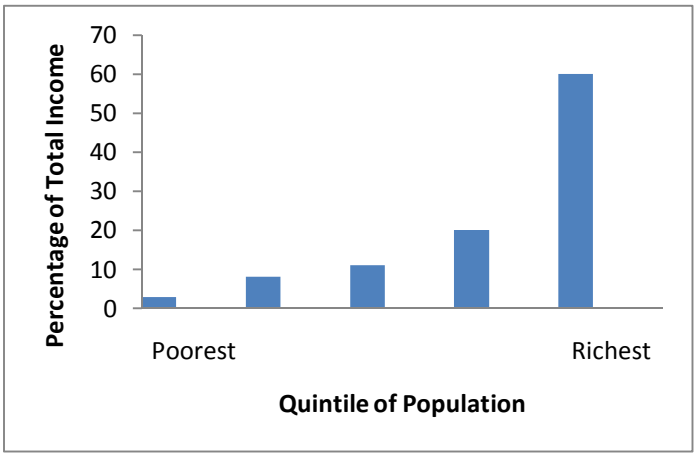
[342] Geoffrey Gilbert, Rich and Poor in America: A Reference Handbook, ABC-CLIO USA, 2008
[343] Ibid pg 81
[344] U.S Department of State: 2009- Investment Climate Statement- Lesotho, http://www.state.gov/e/eeb/rls/othr/ics/2009/117365.htm
[345] Ibid pg1

investment[346]. The positive side is that Lesotho has the right balance when it comes to attracting Foreign Investors. The negative, however, is that Lesotho's policy is not always transparent and consistent. The AGOA will be able to help rectify this with the eligibility clause that was mentioned in chapter 3. Lesotho's economic freedom score is 49.7 %, making its economy the 151st freest in the 2009 Index[347]. Private property is guaranteed, and expropriation is unlikely[348]. These factors play an important role in the success of the AGOA agreement. Namibia is one of the most open of economies, as mentioned above, meaning that it is appealing to foreign investors. While Lesotho is largely open and private property is guaranteed, it still only has an economic freedom of 49.7%, which isn't even half. This may be a reason why foreign investors are hesitant to invest in Lesotho.

While Lesotho treats foreign financiers well once they have invested in the economy, the problem lies in attracting overseas shareholders to originally invest. Lesotho's average tariff rate was 16.5 percent in 2006 and import bans and restrictions, non-transparent and subjective import licensing, domestic preference in government procurement, subsidies, and corruption add to the cost of trade[349]. This shows how entrenched and involved the Lesotho government is in the economy. What is interesting from the above is that that the domestic industry is seen as the more favourable option for consumers and government. This will cause Foreign Investors to be hesitant to invest in Lesotho as government interference is not coveted. MNCs may not trade within Lesotho as domestic industries receive preference. This will hinder growth in terms of the transfer of skills and technology from developed nations as well as the increase of FDI in the Lesotho economy.

Table 12: Income distribution of Lesotho

[346] Loc cit
[347] Wallstreet Journal: Lesotho, 2009 Index of Economic Freedom, http://www.heritage.org/index/Country/Lesotho
[348] Loc cit
[349] Ibid pg 1



- Data Supplied by Development Data Group and Earth Trends

The above table shows the income distribution of Lesotho with the richest 20% of the population earning 60.1% of the total income.[350] The poorest percentage of the Lesotho population (20%) earns around 2.8% of the total income.[351] While this figure is not as high as Namibia's income distribution as mentioned above, it still falls under the category of a high inequality of wealth distribution. This means that the poor are living in extreme poverty and the money earned from Lesotho's annual GDP goes mainly to the top 20% of the population. Economic growth within the country is therefore hindered. The poor are unable to contribute to the economy as they are only earning enough to survive.

Currently, owing to the strength of the South African Rand and the rate of inflation in neighbouring South Africa, the annual average inflation rate has remained between 3 per cent and 6 percent since 2003[352]. Lesotho has an unemployment rate of 45% with 43.4% of the population living under the poverty line ($1 US-Dollar a day)[353]. The question therefore arises as to whether or not AGOA has helped to develop the Lesotho economy efficiently. However, it is important to note that while AGOA may help to develop industry, these indicators, such as the income inequality, are a structural and governmental problem that existed before the AGOA agreement was

[350] Development Data Group, Economic Indicators: Lesotho, 2002, http://earthtrends.wri.org/pdf_library/country_profiles/eco_cou_426.pdf
[351] Ibid pg 2
[352] Wayem, J: Lesotho National Development Report 2006, UNDP, 2007
[353] Mundi Index: Lesotho's Unemployment rate, 2009 http://www.indexmundi.com/lesotho/unemployment_rate.html

established. We now move to discuss the AGOA agreement within the Lesotho economy.

5.5: The AGOA agreement within Lesotho

Lesotho signed the African Growth and opportunity act in 2001[354]. In 2002 President Bush approved that Lesotho would fall under the 'special rule' provision[355]. The clothing industry dates from the early 1980s when a number of South African companies opened up plants in Maseru[356]. Real attractions to Lesotho's textile industry are its wage rates, its good communication infrastructure and the easy road accessibility to the port of Durban[357]. It is important to note that, while Namibia does not have a good infrastructure in place, let alone an easy access to a port (Namibia has to use South African ports much further away), this is not the case with Lesotho. This makes it a lot more advantageous for foreign countries to invest in Lesotho rather than in Namibia. According to the World Bank, Lesotho is the largest exporter of clothing under AGOA and 98 percent of its clothing exports go to the United States[358]. The clothing and textile industry is Lesotho's most important exporter – it has been claimed that the industry contributes at least 19% of the country's GDP[359].

The first Far Eastern investment occurred in 1986 with the opening of the Taiwanese Lesotho Haps. By 2003, there were 54 plants that employed 40,000 people[360]. The plants were mainly owned by Chinese (such as China garment manufacturers and C & Y Garments) and Taiwanese (such as United Clothing and Precious Garments)[361]. Employment reached its peak in July 2004 when over 53,000 workers were employed and up to March 2008, 45,650 people were employed[362]. In Lesotho, out of the 54

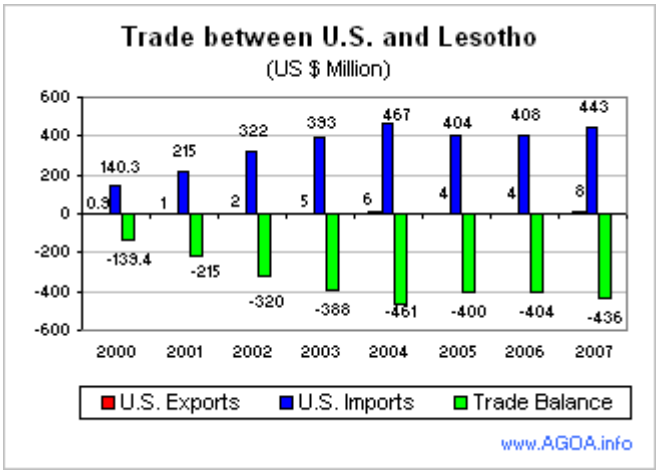
[354] Lesotho Govt online: AGOA benefits Lesotho's economy, 2008 http://www.lesotho.gov.ls/articles/2008/AGOA_BENEFITS_LESOTHO.php
[355] United Nations, The African Growth and Opportunity Act (AGOA) and the African Least Developed Countries, 2003, http://www.un.org/special-rep/ohrlls/ohrlls/agoa.htm
[356] Gibbon, P: op cit pg316
[357] Loc cit
[358] World Bank: Lesotho's trade brief, 2008, http://info.worldbank.org/etools/wti2008/docs/brief107.pdf
[359] Bennet, M: ' Lesotho's Export Textile and Garment Industry' in The Future of Textile and Clothing Industry in Sub-Saharan Africa, Herbert Jauch and Rudolf Traub-Marz (eds), Friedrich-Ebert-Stirtfung, Germany, 2006
[360] Gibbson, P: op cit pg 317
[361] Loc cit
[362] Lesotho govt online: op cit pg1

apparel producing factories, two units specialize in embroidery[363]. Two of the largest producers have made investments that will enable them to source fabric regionally[364]. All products made in Lesotho are destined for the mid-range to low-end chain stores in the Unites States[365]. According to the IMF, economic growth rose to almost 3¾ percent in 2002/03 from 3¼ percent the previous year due, mainly to strong clothing exports to the United States under the African Growth Opportunity Act (AGOA)[366].

Despite new employment opportunities in the garment industry, with more than 10,000 jobs created in 2001 alone, concerns are being raised about low wages and the health costs associated with long hours spent working in factories[367]. In Lesotho, since the inception of the AGOA agreement more people are now working in the private sector than the public sector due to the increased volume of that country's apparel exports to the United States[368]. However, the question still remains as to what type of employment does this create? Skilled workers? Unskilled workers? This will be answered in the following section.

Table 13: Total trade between U.S and Lesotho

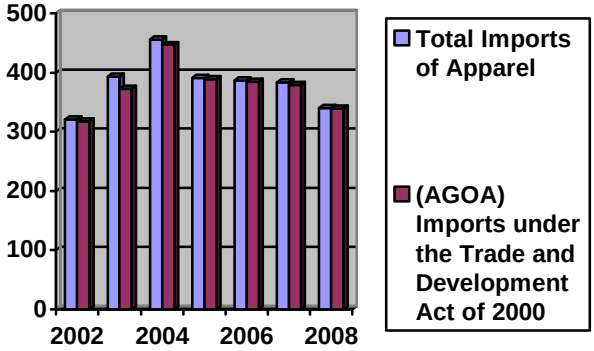
[363] Westneat, A: Trade and Market Access, USAID, United Nations ECOSOC High-level Segment Meeting, 2004
[364] Ibid pg 1
[365] Loc cit
[366] IMF: IMF Concludes 2003 Article IV Consultation with Lesotho, 2004 http://www.imf.org/external/np/sec/pn/2004/pn0406.htm
[367] Roberts, B Explaining the PRSP process in Lesotho, Economic Commission for Africa, United Nations, Ethiopia, 2003
[368] Witney W. Schneidman and Erastus J. O. Mwencha, Africa: Keep AGOA alive!, 2004, http://allafrica.com/stories/200401260110.html



Bi-lateral trade between these two countries recorded a $ 215 million US-Dollars trade surplus within the U.S. in 2001; double that of two years previously[369]. Lesotho imports only a very small amount of goods from the U.S. and has traditionally provided a ready market for Lesotho's exports of apparel, which have been strongly bolstered by the advent of the AGOA[370]. In 2001 and 2002, 99% of Lesotho's exports fell into the 'textiles and apparel' category, of which 98% were AGOA-eligible, a feat achieved by no other AGOA-eligible country[371]. This is important, as while in Namibia, textile and apparel exports only accounted for around 30% of its exports to the U.S, textile and apparels' account for almost all of Lesotho's exports to the U.S. Industry is therefore a more important investment for Lesotho as it accounts for so much.

Table 14: Lesotho's Textile and Apparel Exports under AGOA

[369] TRALAC: Country Information- Lesotho, http://www.agoa.info/?view=country_info&country=ls#
[370] Ibid pg1
[371] Loc cit



	2002	2003	2004	2005	2006	2007	2008
Total Imports of Apparel ($'000)	320690	392.670	455.753	390.712	387.031	383.526	339.690
(AGOA) Imports under the Trade and Develop Act of 2000 ($'000)	317.660	372.614	446.487	388.344	384.452	379.464	338.686

-Data from, US Department of Commerce, Office of Textiles and Apparel (OTEXA).

What is interesting to note from the above table is that total imports from Lesotho and AGOA imports have decreased since the MFA expired in 2005. While exports are still substantially higher than that of Namibia there is nevertheless a huge decrease in imports in the industry since 2005. Today, Lesotho produces about 26 million pairs of denim jeans a year[372]. In 2002, it was estimated that approximately 74% of Lesotho's total exports (aside from water which is piped to South Africa) were textile and garments; in 2003 it was estimated that more than 77% of Lesotho exports were textiles and garments[373].

Since the establishment of the AGOA agreement in Lesotho, there have been major contributions to the economy and its infrastructure. It has been reported by the United States' embassy in Lesotho that there has been an increase in investment in the water, telecommunications and electricity utilities; road freight transport; courier services;

[372] Bennet, M: op cit pg 165
[373] Ibid pg 170

shipping and forwarding agents; security services; passenger transport and the sale of food to worker sectors.[374] The AGOA agreement has led to a spinoff of investment from the Millennium Challenge Corporation (MCC). In July 2007, the Millennium Challenge Corporation signed a five-year, $362.6 million US-Dollars Compact project with the Kingdom of Lesotho aimed at reducing poverty and increasing economic growth.[375] The Compact projects focus on improving the provision of water supplies for industrial and domestic use, improving health outcomes, and removing barriers to foreign and local private sector investment.[376]

Critics argue that AGOA in Lesotho initially spurred growth in the textile industry, but the number of people employed in the industry, the vast majority women, has fallen to almost half of what it was in 2001[377]. They claim that the companies that invest in the industry largely ignore health and labour and standards[378]. Having discussed the AGOA agreement within Lesotho, we now move on to answer whether or not AGOA has harmed Lesotho's economy or helped develop it

5.6: The Significance AGOA has had on the Lesotho economy

Lesotho built up a textile and apparel industry from one that was marginally small in the 1980s to a well developed and competitive industry. More garments are exported by Lesotho to the United States than any other sub-Saharan country[379]. As mentioned above, the industry overtook the government as the largest employer in the country[380]. This feat in itself is very impressive as Lesotho's economy has now become largely privatised putting less pressure on the government to create jobs. The AGOA agreement in this case has helped to develop the Lesotho economy, as the increased privatised economic structure is more in line with developed economies.

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[374] Lesotho US Embassy: Lesotho and AGOA, http://maseru.usembassy.gov/commercial_section.html#top
[375] MCC, Lesotho Investment, http://www.mcc.gov/mcc/countries/lesotho/index.shtml
[376] Ibid pg 1
[377] OSISA: AGOA hurts Africans, Argue Critics, 2008 http://www.osisa.org/node/10816
[378] Ibid pg1
[379] Delia Robertson, Lesotho Textile Industry faces bleak future, 2005 http://www.voanews.com/english/archive/2005-02/2005-02-09-voa29.cfm
[380] Ibid pg 1

Lesotho textile industries have extended their production and are now creating denim fabric and yarn, denim garments, knitted garments, woven garments (with two firms producing dual products-woven and knitted garments), embroidery and screen printing[381]. Diversification of the industry is therefore evident. The textile industry is presently able to create a garment from start to finish. While most companies imported yarn and materials from Asia, two companies (as mentioned above) have invested in the industry and thus can import materials regionally. This knowledge cannot be taken away from the Lesotho economy, thus causing a concrete development within the country's present and future growth.

While AGOA has created many jobs (most being 53,000 in a population of 2.1 million), many of the jobs in this industry are low skilled, with very few people advancing or being trained on the job[382]. Most of the foreign-owned companies fly in their own management, and other top and middle management are recruited in China and India, for example[383]. Therefore, like Namibia, AGOA has not ensured that labourers become proficient in skills. Whilst one cannot take away the knowledge that is gained by these workers within the textile industry, outside management will always be needed in order to supervise production of textiles. This means that essentially Lesotho has a shell of an industry without the essential education to utilize it. Many have argued that this is one of the main reasons for the lack of development in African countries. While the AGOA agreement allows for the education and training of workers, it is the investors themselves that do not train the local workers, causing a vicious circle in terms of development in Africa. Even though perhaps it is the government that should enforce restrictions on foreign investors, African nations such as Lesotho cannot afford to be particular in the kind of investors entering Africa.

It was estimated that in mid-2005 the approximate 40,000 workers engaged in Lesotho's textile and garment industry earned about M306 million (US $ 48m US-Dollars [at an exchange rate of US $ 1 US-Dollar = M6.40]) per annum[384]. According to Lesotho's Clothing and Allied Workers Union (LECAWU), textile workers (even

[381] Bennet, M: op cit pg169
[382] Gibbon, P: op cit pg 320
[383] Loc cit
[384] Bennet, M: op cit pg 167

those in foreign companies) earn an average minimum wage of M35 a day[385]. This is lower than the average worker in the manufacturing sector who works for an average of M39 a day[386]. Thus, although there has been an increase in employment due to the AGOA agreement, this industry is still not combating poverty as workers are paid less than the average minimum wage. The union claimed that companies arbitrarily dismissed workers and many refused to recognise trade unions[387]. It also stated that many employees worked a seven day week and were often required to work overtime to meet company production targets and failure to do so, resulted in wage cuts[388]. However, it is important to note that even though the union has requested the U.S to investigate this, it is not the AGOA agreement itself that has exploited these workers but rather the foreign Multi-National Corporations. Thus, to a large extent, it is the implementation of the agreement that has caused the lack of development and not the agreement itself.

Under the MFA, major Asian textile companies, limited in exporting directly to the EU and the US, set up subsidiaries in less developed countries, including Lesotho[389]. As mentioned above, the MFA came to an end in 2005. Mr. Daniel Maraisane, head of the main Clothing Workers' Union claimed that with the end of the quota system, those investors "say it's now easier and cheaper to manufacture in China and India"[390]. By the end of 2004, six of the country's fifty clothing factories closed, leaving 6,600 workers without jobs or termination benefits[391]. The surviving companies, faced with shortfalls in export orders, placed 10,000 workers on short-term work, using them only when needed[392].

This is combined with the fact that the Loti – which is tied to the South African currency at par (SACU's Common Monetary Area (CMA)) – has significantly strengthened in value[393]. The strengthening of the local currency has meant that

[385] LECAWU: Highlights of Current Labour Market conditions in Lesotho, LNDC Centre, 2006 http://www.gpn.org/data/lesotho/lesotho-analysis.doc.
[386] Ibid pg 1
[387] BBC: U.S trade 'exploits' Lesotho workers, 2002 http://news.bbc.co.uk/2/hi/business/1875088.stm
[388] Ibid. pg 1
[389] Mutume, G: Loss of Textile market costs African jobs, Journal of African Renewal, Vol. 20, No.1, 2006
[390] Ibid pg 18
[391] Loc cit
[392] Loc cit
[393] Bennet, M: op citpg171

Lesotho's garment exports have become too expensive[394]. What is interesting to note is that most countries that have invested in African countries are from Asia rather than other parts of the world. Thus, it can be seen that the AGOA agreement is inherently linked to the MFA. This is especially a problem for Lesotho as 77% of its exports are from the textile and apparel industry and 98% of those exports are under AGOA. If the Asian companies therefore decide to go home, the Lesotho economy could be crippled. However, in Lesotho's case they have managed to reopen all its factories and rehire 7,000 workers[395]. According to Andy Salm, Regional Textile and Apparel Specialist at ComMark Trust, the textile industry has been significantly picking up and more orders are now being placed in Lesotho again[396]. He argues that one of the reasons large retailers and brands have returned to Lesotho is that the government has been working hard to become a destination of ethical choice, and this has started to pay off[397].

However the relationship that was created between Lesotho and the United States under AGOA has spilled over into other investments such as the MCC investment in infrastructure. This venture has helped strengthen Lesotho's economy and investment in other sectors. I do not think this would have occurred had it not been for the positive response the United States received from Lesotho through AGOA. AGOA has in that sense helped to strengthen bi-lateral trade and investment with United States, which hopefully in the future, will eradicate poverty in Lesotho.

Chapter 6: AGOA a Step Forward in Development?

The aim of this paper has been to investigate the success of the AGOA agreement in developing the African economies. Significant development in Namibia and Lesotho's economy has resulted from the above findings. Both countries have shown a high level of increase in FDI. In chapter 2, the importance of FDI was explored and shown. There has been an increase in the contribution to tax revenue from the MNCs that have invested in both these African countries. These revenues are pumped back

[394] Ibid pg 172
[395] All Africa: Africa: Textile Producers Get a Boost from U.S. Trade Bill Extension, Dec 2006, http://allafrica.com/stories/200612120939.html
[396] TRALAC: Lesotho: Positive News from the Textile Industry, 2006 http://www.agoa.info/?view=.&story=news&subtext=694
[397] Ibid pg 1

into the economy allowing for economic growth. All sectors of the economy have grown through these revenues and not only the textile industry where the FDI has originated from. African governments are able to invest in sectors of the economy that have been struggling including education, healthcare and the payment of foreign debt.

One of the main aims of the AGOA agreement, as mentioned above has been to increase US market access for imports coming from Africa. This will, in theory, increase exports coming from African nations which should in turn help to develop the country. In both case studies, as previously shown, a very large increase in goods has occurred. Namibia increased its exports from the textile industry from 6 697 ($'000) in 2002 to 28 600 ($'000) in 2007. Lesotho increased their imports from 320 690 ($'000) in 2002 to 339 690 ($'000) in 2007. Exports that have fallen under the AGOA agreement are over 90% (Namibia- 28 578 out of the total 28 600 exports are under AGOA and Lesotho – 338 686 out of the total 339 690 are under AGOA). Therefore the fact that there has been an increase in exports and foreign exchange earnings, which has resulted in development, can be attributed to the AGOA agreement.

AGOA has created jobs in both nations. As shown above, 6 000 jobs were created in the Namibian economy and in Lesotho 10 000 jobs were created in 2002 alone and total jobs created in Lesotho are a huge 53 000 in a population of 2.1 million. This shows a big step forward in the eradication of poverty in these nations. What is interesting to note is that in the findings Namibia had a nonexistent textile industry and this has been created. However, while job creation is good, it is the type of growth that should result in sustainable growth. As this has not been the case in these two countries, it will be discussed in more detail in the next section. Another step forward in development is the fact that in Lesotho 99% of total exports come from the textile industry and 98% of that is from AGOA. The textile industry has in fact overtaken the government as the largest employer, which is a move towards a bigger market economy by greater privatisation. This falls in line with the world economy which trades in market economy and free trade. AGOA has succeeded in creating an optimal environment where market economy is able to thrive. This has also met the AGOA aim of criteria eligibility.

One of the research questions asked has been, whether or not AGOA has been able to diversify an economy. This paper has shown that, yes, it has been able to diversify the economy. Perhaps not to the extent needed to fully eradicate poverty in Africa, but within the textile industry this has occurred. Namibia, as mentioned above, has created a vertical diversification of its industry and Lesotho has diversified into many different types of textiles. This has allowed for a transfer of knowledge in the making and creating of textiles to the domestic/host country. Conversely the type of skills developed and the extent thereof has not been achieved, as will be shown in the next section.

Finally, AGOA has created a greater investment into the infrastructure of these countries. In both case studies, there was a greater investment by the national governments towards the implementation of better access to roads and transport sections. This has created lasting benefits, as this infrastructure is a step forward in sustainable growth. A characteristic of a developed nation is its strong basic infrastructure. AGOA has proved to have helped African nations reach this goal. This is a benefit that cannot be taken away and will last, if properly maintained. Investing in infrastructure cannot be attributed to AGOA alone however, but rather to a combination of government spending and the increase in foreign exchange earnings because of exports.

From the above, it has been shown that there have been major benefits from the AGOA agreement in helping in the development of Africa. The question, however is, will it help to move Africa out of its poverty trap? While there have been many successes there have been major failures that may override the benefits. These will now be discussed.

6.1: AGOA not making the grade?

When investigating the benefits of FDI throughout this paper, the main positive advantage of an increase in FDI is the exposure the developing country has to new technology and employee training. While the technological spill-over has occurred, the skills needed to maintain, use and develop this knowledge have not been transferred. In both case studies, Asian/Malaysian companies were the biggest

investors in the host countries' textile industries. The companies were quick to open up subsidiaries in the host country and employ local people (as stated in 6.1). Conversely, the companies did not employ local people for the skilled /supervisory positions. These employees were brought in from their own continent. In both cases, training programs for skilled level workers were not put in place. One of Africa's biggest problems (as mentioned in chapter 2) is that Africans do not have the skills' expertise to be able to compete in the "new economy". Structural unemployment (people do not have the skills to match the GDP of a country) is the biggest factor for the poverty in Africa. AGOA has attracted companies that have not tried to rectify this but have rather taken the benefits of an extended market and employed and developed their own area's population. AGOA does not have any legislation that protects against this. Sustainable development in this regard, has not been achieved by AGOA.

Throughout the findings in the two case studies, it was interesting to note that in both cases the MNCs did not reinvest in the local economy. In both cases it was shown that profits gained by the MNCs usually were put into offshore accounts or invested back into their own country. Governments had to shoulder the pressure of the expense of an increase on the infrastructure in the country. In many FDI cases private enterprises invest in the growth of their sector in order to make their company more efficient. This causes an indirect benefit to the host country which did not occur in the textile industries of both Namibia and Lesotho. AGOA has failed in aiding countries develop new sectors in the economy. This means that Africa will remain stuck in the primary sector without the exploration and development of new sectors equalling the global economic trading of services and technology.

AGOA is aimed at eliminating poverty in Africa. As mentioned above this is done by increasing employment, which AGOA has achieved. In spite of this, the analysis of both case studies has shown that wages in the textile industry are extremely low. Namibians endured terrible working conditions and it was recently reported that Ramatex's business practices are under investigation. A medical doctor who examined 2 432 former Ramatex employees in April last year found that 46 of them had "work-related abnormalities" such as eye and skin irritations and lung conditions

that could be connected to their employment at the Ramatex factory[398]. Lesotho's low-skilled workers were paid less than the average minimum wage in the manufacturing sector. As shown in chapter 2, the quality of a product rather than cheap labour costs make a company more efficient in the world economy. The lowering of wages that these companies have implemented is not in line with the global economy. This means that it is a step backwards in closing the gap between the developed countries and developing countries. Low wages is a cause that Africa, who already starts on a low base poverty wise, is still lagging behind in developing its population and country. AGOA has not put in place legislation or conditions that rectify this, including best labour practices.

The expiry of the MFA in 2005 has had a devastating effect on the development of the textile industry in both these countries. In both case studies, exports in the textile industry declined after the MFA expiry. This is because most foreign companies invested in Africa were Asian countries (MFA affected most of these nations). The case studies above show that with the conclusion of the MFA, textile companies closed their doors and moved back to their region (transport costs became cheaper). This is a lag in the development of Africa in this particular industry as the population in these case studies have lost their jobs. These jobs could have been created in a different industry but because of the benefits of AGOA they were created in the textile industry. What is important to note, is the fact that there were no skills' transferral, therefore even if the domestic industry wanted to continue or to recreate a textile factory, Namibians and the Lesotho population would not have the ability needed to start on their own. Another interesting fact is that one of AGOA's aims is to grow infant industries but in the case of the Namibian textile industry, AGOA squashed the industry instead.

6.2: AGOA: Problems fixable or Agreement elimination?

Do the problems of the AGOA agreement outweigh the benefits in terms of development? While the above shows major problems in terms of skills development,

[398] Werner Menges: Labour Ministry Looking for Ill Former Ramatex Workers, Namibian Newspaper, 17 September 2009 (accessed October 2009), http://allafrica.com/stories/200909170422.html

foreign investment and elimination of infant industries, these problems in my opinion are fixable and have already begun taking place.

AGOA, as a development agreement, has all the right aspects including helping to change the structure of the economy with the criteria eligibility clause. The problem lies in the implementation of the agreement. Legislation is needed to ensure that skills' development is occurring and this must be combined with government's monitoring thereof. There needs to be a mechanism in place that promotes FDI, not just from one area (Asia), but makes it beneficial for more countries to invest. Greater focus from the US in terms of trading with all African nations, not just countries that are rich in minerals, is an essential element.

There have been different views from both trading countries (US and Africa) on the success of AGOA. The US belief that only the right legislation needs to be put in place in order to rectify the problems the agreement is facing, is not taking the eradication of the implementation problem far enough. Africa's desire to be more involved should be taken into cognisance by the US and in-depth discussions on the policies that will be put in place should occur. The only way for Africa to achieve the maximum potential of AGOA is for both trading partners to work together.

Positive steps to rectify the problems that AGOA has, have been undertaken by the US and African nations. The US (as mentioned above) has put in place legislation (the Small and Medium Enterprise Act 2005) in order to protect small and medium businesses that suffer due to larger foreign companies that have entered the African market. Lesotho, as mentioned above, has taken positive steps to rectify the loss their economy faced with the expiry of the MFA. The country has invested in the domestic textile industry and has created jobs for 7 000 Lesotho people (6 000 jobs were lost by MFA). These are examples of ways in which the US and Africa can work together so as to take full advantage of the AGOA agreement. It is important to note that the AGOA agreement is subjected to each specific country. How the country makes AGOA work for them, will decide whether or not this agreement helps to develop their economy.

Chapter 7: Conclusion

From the above, the theory of Free Trade has been shown as the main concept that the world economy presently follows. The AGOA agreement aims to help African Countries become more competitive in a Free Trade world. Key concepts of development and diversification have been explained showing how sustainable development has moved from past assumptions of GDP towards looking at the development of a country through its Human Development Index which includes skills development, health and standards of living. Diversification is important for the future of a sustainable economy and can be increased in one sector. It has been explored how this is related to the AGOA agreement by creating a strong foundation as to what the agreement aims to do. This paper has investigated the extent to what AGOA has been successful in the development of Lesotho and Namibia's textile industries. It has concluded the following:

Although from the US perspective, AGOA has been a success, it can be seen that it has been more beneficial for the US than Africa. In my opinion, it has had very little impact on the growth of the Namibian economy because the AGOA umbrella has only really benefited one company that does not invest in the Namibian economy. This agreement does not foster infant industries, but to some extent, makes it harder for them to compete with the giant Multinational Corporations such as Ramatex. On the other hand in Lesotho, the AGOA agreement has vastly increased the employment in the country. Lesotho has definitely benefited from the AGOA agreement in terms of an increase in exports. Why has Lesotho experienced a higher increase in employment and exports than Namibia? There are three reasons: firstly, Namibia does not have an established infrastructure in the textile industry, thus, making transportation costs high, while Lesotho on the other hand, has a direct route to Durban ports. The second reason is the export composition of each country. Lesotho's main export is textiles, while Namibia's is in fact minerals. Finally, Lesotho is more appealing to investors in the sense that cheap labour is readily available and the government has allowed these companies more freedom. Namibia, while open to this, does not have as cheap labour.

However, in terms of real poverty reduction the AGOA agreement has not achieved this in Lesotho, as seen with the low HDI and exploitation of workers. The AGOA agreement, as such, cannot be blamed. It has been seen by this study that in fact it is rather the investor's lack of actual investment and implementation of training for local workers in both countries that has led to this agreement having a distorted success rate. AGOA, as a conceptual agreement is sound. The implementation thereof however, has been found lacking which has resulted in Africa remaining in its poverty trap. A change in legislation, increase in dialogue, greater involvement of African institutions and a monitoring and review system is needed for AGOA to move forward in helping to develop Sub-Saharan Africa. Greater effort is needed for Africa to move out of past trends and fallbacks and fit into the global economy. These changes must be put into practice soon, so that sustainable development is created before AGOA expires in 2015.

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