Twenty Years of the U.S. African Growth and Opportunity Act (AGOA): Policy Lessons from Kenya's Experience

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Abstract

The African Growth and Opportunity Act (AGOA) is a United States policy that seeks to help diversify Sub-Saharan Africa's export production, expand its trade and investment with the U.S., and accelerate its economic growth. Using Kenya as a case study, we examine whether AGOA is achieving its objectives and what African countries can do to improve their AGOA implementation, diversify their exports and markets, and develop their long-term trade strategies. We find that a large share of U.S. imports from Kenya and exports occur under AGOA, with textile and apparel products dominating the exports. Although the non–textile and apparel sectors have also grown under AGOA, their growth rate has been less impressive though they weathered the U.S. recession of 2009 reasonably well. We also highlight AGOA's economic impact, in terms of private investment and employment and explore the implications of the foreign ownership of most AGOA-related enterprises. We also underscore AGOA's social impacts through wages and entrepreneurship opportunities for women and youth. We recommend institutional restructuring to ensure the coordination of Kenya's trade and industrial policies and strengthen its capacity for policy formulation, monitoring, and evaluation. The Kenyan government should also enhance its trade negotiation skills to benefit from AGOA. It should work towards a multi-sectoral and globally competitive trade and industrial policy that can move the country past its dependence on AGOA and the U.S. market. It should also make the apparel industry globally competitive and diversify its exports to include high value-added products. We also call for investing in better infrastructure, including transportation and electricity systems, to help reduce Kenya's industrial production costs, to ensure that AGOA benefits Kenyans by, for instance supporting local entrepreneurs and improving working conditions in AGOA firms, especially those that predominantly employ women and youth. [1]

***Keywords*:** African Growth and Opportunity Act (AGOA), Export Processing Zones (EPZ), US-Africa relations, industrialization, Africa

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INTRODUCTION

The African Growth and Opportunity Act (AGOA) is a United States law that provide beneficiary countries in Sub-Saharan Africa (SSA) with liberal access to the U.S. market. It is intended to help diversify Africa's export production, expand trade and investment between the U.S. and SSA, and accelerate Africa's economic growth. However, SSA countries must qualify for AGOA benefits based on criteria that include establishing a market-based economy, the rule of law, and the enactment of poverty reduction strategies. Since its implementation, AGOA has had a significant impact on stimulating Africa-US trade. For instance, exports from AGOA-eligible countries grew by over 300%, from US$ 21.5 billion in 2000 to US$ 86.1 billion in 2008. It has created over 300,000 jobs, many of which are in the apparel sector, which provides employment opportunities for women and youth.

Much of the growth in exports under AGOA in several non-oil exporting SSA countries, including Kenya, have come from the textile and apparel sector with a relatively tepid response from the non-textile and apparel sectors of the economy. However, the latter better withstood the 2009 economic crisis in the U.S.

This case study's overall objective is to understand Kenya's experience with the implementation of AGOA, including its impacts on trade, the economy, and to offer recommendations for its improvement, in diversification of its exports, and development of its long-term trade strategies. Using publicly available data from the Kenya and U.S. governments and international agencies in the 2000-2017 period, we analyze the US-Kenya trade dynamics, focusing on trends in the textile and non-textile industries, trade diversification, investment and employment, and the social impacts of AGOA firms. Based on our study findings, we offer recommendations to help Kenya and other SSA countries benefit from AGOA.

The rest of the paper is divided into five sections. Following this introduction is a brief overview of AGOA, focusing on its objectives, country-qualifying criteria, and its general impacts. We then present the study's objectives, our data sources, and methods of analysis. This is followed by discussing Kenya's trade policies and regimes to help situate AGOA within the country's development policy context. We then discuss AGOA's impact on Kenya, focusing on its trade, economic, and social impacts. We end with policy lessons for Kenya and other Sub-Saharan African AGOA beneficiary countries.

AGOA – A brief overview

AGOA came into force on May 18, 2000, and, unless it is extended, it will expire on September 30, 2025 (Mathey, 2015). It was signed as Title 1 of the U.S. Trade and Development Act of 2000, which provides beneficiary countries in SSA with the most liberal access to the U.S. market available to any country or region with which the U.S. does not have a free trade agreement. Its objectives are to diversify Africa's export production, expand trade and investment between the U.S. and SSA, and accelerate Africa's economic growth. These are to be achieved through (i) the reduction of tariff and non-tariff barriers, (ii) the negotiation of trade agreements, (iii) the integration of the region into the global economy, and (iv) the expansion of U.S. assistance to Africa's regional integration. Also, AGOA was designed to use investment guarantees to mobilize private foreign investment for Africa. AGOA provides preferential access to the U.S. market above and beyond the Generalized System of Preferences (GSP) and Most- Favored Nation (MFN) systems, including many critical developing world exports such as textiles and apparel. Local

content restrictions (e.g., fabric) were also subsequently eased for particular products (e.g., apparel articles). In many ways, AGOA's main aim was to support African economies' ability to use the textile and apparel sectors as potential engines of industrialization and economic growth, as it historically happened in South and Southeast Asia. A 'special rule' permits lesser developed AGOA beneficiary countries to utilize fabric manufactured anywhere in the world, unless if the fabric is designated as being in 'abundant supply' from within SSA. However, countries must qualify for AGOA benefits based on criteria such as establishing a market-based economy, the rule of law, and the enactment of poverty reduction strategies.

Since its implementation, AGOA has had a significant impact on stimulating Africa-US trade. For instance, exports from AGOA-eligible countries grew by over 365%, from US$21.5 billion in 2000 to over US$100 billion in 2014 (https://agoa.info/). As of 2017, AGOA had also created over 300,000 jobs, many of which were in the apparel sector, providing much-needed employment opportunities for women and youth. However, much of its growth in exports in the non-oil exporting SSA countries, including Kenya, have come from the textile and apparel sector, with a relatively tepid response from the other sectors of the economy.

Objectives and methodology

The overall objective of this case study is to understand Kenya's experience with the implementation of AGOA and other trade agreements before (the period up to 2000) and after AGOA (from 2001 to 2017) and to offer recommendations for (i) improving its AGOA implementation, and (ii) diversifying its exports and markets, and developing its long-term trade strategies. The specific objectives are: (a) to explore Kenya's economic policies, including its trade policies, strategies, approaches, and initiatives, especially under the AGOA; (b) to assess AGOA's impacts on Kenya's exports and imports, economy, and social sectors before and after AGOA; (c) to explore the country's strategies for implementing AGOA, including the roles of key stakeholders; and (d) to offer recommendations for the effective implementation of AGOA to ensure the overall increase in Kenya's trade performance.

This study is primarily based on library research on Kenya's AGOA trade, policies, practices, achievements, and socioeconomic impacts. Data from the AGOA website (https://agoa.info/) provided the context for this report, while more detailed analyses relied on data from the Kenya and U.S. governments and various international agencies. The study covered the 2000-2017 period. The data sources we used include:

- Annual Statistical Abstracts and other data sources from the Kenya National Bureau of Statistics (www.knbs.or.ke).
- U.S. Census Bureau data foreign trade (www.census.gov/foreign-trade/data/index.html), which provided overall trade data and US-Kenya bilateral trade data for the period up to 2017.
- The International Trade Center's Trade Map (www.trademap.org), which included trade data up to 2014.
- the World Bank's World Integrated Trade Solution (wits.worldbank.org), which included Kenya's export trade data.
- The United States International Trade Commission (www.usitc.gov) data on AGOA up to 2016, which covered the aggregated two-digit Harmonized Schedule (H.S.) categories down to ten-digit subcategories. Much of the analyses in this report were based on the two-digit, four-digit, and in some cases, ten-digit categories.

- Data for the economic and social impacts came mostly from the Kenya Export Processing Zones Authority (EPZ) Annual Performance Reports for the 2012-2016 period.

In terms of analysis, we employed basic quantitative analysis techniques (such as graphing and calculation of basic statistics) to assess the impacts of AGOA in Kenya. We paid attention to Kenya's trade patterns with the U.S. before (pre-2000) and after AGOA came into force (post-2000). We also explored AGOA's impact on the Kenyan economy, including foreign direct investment, job creation, value addition, and domestic resource mobilization. In addition, we examined its social implications on vulnerable groups (such as women and youth) and working conditions in the country's export firms.

Kenya's trade policies and regimes

Kenya is like other SSA countries in many ways. It is a lower-middle-income country in East Africa, with a youthful population and a large, underutilized labor pool due to high unemployment and underemployment rates. In 2020, Kenya's GDP of US$ 101 billion made it the 6th largest economy in Africa (Statista, 2021). Kenya's major economic sectors include services (43.2%), agriculture (34.2%), and industry (16.2%) (O'Neill, 2021). Kenya's strong service sector partly stems from its role as East Africa's economic, financial, tourism, and transport hub. Despite being the second-largest contributor to Kenya's economy (in terms of GDP composition), agriculture is the country's most prominent, important, and dominant industry, with its main products being tea, coffee, corn (maize), wheat, sugarcane, fruit, vegetables, cut flowers, dairy products, beef, fish, pork, poultry, and eggs. In addition to textiles and apparel, Kenya's other main exports to the U.S. include coffee, tea, nuts, cut flowers, fruit juice, vegetable-based materials, processed fruits and nuts, and telephony electrical apparatus. Leather and shrimp are also important, but minor Kenyan exports to the U.S. (https://agoa.info/profiles/kenya.html). Many of Kenya's agricultural products (e.g., tea and cut flowers) are also exported to other regions like Europe.

Kenya's post-independence trade policies are also similar to those of many African countries. A review of the policies shows significant shifts in Kenya's national, regional, and international policy environment in relation to trade. At the national level, the policies have ranged from the post-independence state-led import substitution (1960s-1980s), trade liberalization under structural adjustment (1986-90s), and other government-initiated industrial-oriented policies, including the Vision 2030. Kenya's membership in trade agreements has also shaped its trade policies. Regionally, Kenya has participated in various integration efforts, such as the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) that have significantly influenced its trade policies. Kenya's bilateral and multilateral trade agreements, including AGOA, have also affected its trade policies. Since 2013, the government has positively moved forward to implement economic reforms and improve the business climate. Particularly, the 2015 enactment of the Companies Act, the Insolvency Act, and the Business Registration Service Act significantly improved Kenya's business climate, in the World Bank's Ease of Doing Business report of 2015. In 2020, Kenya was ranked 56th on this score, with one being best, out of the 190 ranked national economies, having risen from 61 in 2018 (World Bank, 2020). In addition to influencing trade policies, these agreements can help build a country's capacity to participate in other trade negotiations and derive maximum benefits, including the current Free Trade Area negotiations that Kenya and the U.S. are engaged (Schneidman & Dawson, 2020).

Kenya is a good case study for assessing the bilateral impact of AGOA on US-Africa relations. Like many other SSA countries, Kenya faces the challenge of diversifying its trade

beyond textiles and apparel within the AGOA framework. The excellent performance of its textile and apparel sector, since AGOA's enactment and the resistance of its non-textile and apparel sector to fluctuations in the U.S. economy, makes the study of Kenya's experience with AGOA relevant for other non-oil exporting African countries. Similarly, the dominance of the textile and apparel sector under AGOA raises the question of whether Kenya (and other SSA countries) can be competitive in this sector against major global rivals such as China, India, Bangladesh, and Cambodia when and if AGOA ends in 2025. Thus, the Kenyan experience is relevant to discussions of AGOA's impact on SSA countries beyond 2025. The non-textile and apparel sectors' potential ability to diversify the country's exports also make Kenya a good case study for economic diversification under AGOA. Besides, as a bilateral trade regime that provides a competitive edge to Kenyan (and SSA) firms, AGOA can provide Kenyan leaders with the experience needed to better negotiate and implement other non-AGOA trade schemes with, for instance, China, India, and the E.U.

AGOA was created to stimulate Africa's economic development by granting its countries preferential duty-free access to the U.S. market for 6,421 tariff lines (https://agoa.info/). To an extent, AGOA has achieved its objectives for Kenya and a few other African countries by significantly boosting trade between them and the U.S. and by spurring innovation and job creation. In particular, AGOA, through its various qualifying and continuous eligibility requirements (such as the entrenchment of the rule of law, property and labor rights, and democratization), has since 2000 helped Kenya to (i) democratize substantially, (ii) increase and diversify its trade basket to include textiles and apparel, and (iii) grow and diversify its major export market destinations to include the U.S. Moreover, AGOA has helped the country to implement several political, economic, and social policy reforms that have streamlined its business environment and raised its World Bank ease-of-doing-business rankings (World Bank, 2017, 2018, 2020), and to improve its standard EPZ and Special Economic Zones (SEZ) incentives to include express online processing of customs documentation (African Cotton & Textile Industries Federation, 2013).

Despite these changes, Kenya, like many other African countries, is far from utilizing AGOA's full benefits. Indeed, the overall AGOA utilization was 65% in 2013 for trade in all products and across all countries; however, when crude petroleum imports are excluded, the overall utilization rate falls to 31% (United States International Trade Commission [USITC], 2014). Several factors account for this low utilization rate (ibid). For instance, as Kenya's National AGOA Strategy cautioned, the strong trade regime-based advantage that AGOA offers has meant that Kenya has developed an industry whose competitive edge is based on policy advantages and not firm-level advantages (USAID/Ministry of Trade, 2012). Moreover, outside of textiles and apparel, AGOA has not dramatically impacted Kenya's other exports.

To address these and other challenges, Kenya developed a National AGOA Strategy in 2012 to support the ability of local firms to successfully sell into the U.S. market and leverage every opportunity that AGOA provides. It, therefore, identified the following as key strategic priorities: (i) a trade policy that is focused on the U.S., especially regarding AGOA's extension to 2025; (ii) business support for Kenyan firms to further their exports to the U.S. market; and (iii) general business support to address constraints faced by Kenyan exporters. The document argues that AGOA has played a catalytic role in directing increased technical assistance toward export readiness for the U.S. market and identifies the organizations shown in Table 1 as being key in enabling the country's exporters to take advantage of AGOA's trade opportunities

(USAID/Ministry of Trade, 2012).

Table 1: Key Kenyan agencies that facilitate AGOA

Agency	Role
State Department for Trade[2]	Falls under the Ministry of Industry, Trade and Cooperatives and is responsible for the country's overall trade policy.
Kenya Embassy in Washington, DC[3]	Promotion of Kenya-US trade, education of U.S. investors about investment opportunities, and promotion of the country as an excellent location for U.S investment.
Export Processing Zones Authority (EPZA)	State corporation under the Ministry of Trade and Industry that develops and manages export and special economic zones.
Export Promotion Council (EPC)	The focal point for the development and promotion of Kenya's export trade
The Kenya National Chamber of Commerce and Industry (KNCCI)	Not-for-profit private company. Membership-based trade support group that protects the commercial and industrial interests of Kenya's business community and advocates for the creation of a favorable commercial, trade, and investment climate that can support enterprise expansion.
Fresh Produce Exporters Association of Kenya (FPEAK)	A horticulture export industry trade association. Represents and coordinates its 100 growers, exporters, and service providers who are involved in the growing and/or export of fresh-cut flowers, fruits, and vegetables.
African Cotton & Textile Industries Federation (ACTIF)	A non-profit regional trade and industry promoting body, established by the cotton, textile and apparel actors from Eastern and Southern Africa.
East Africa Trade Hub (EATH)	Helps African businesses to take advantage of AGOA's trade opportunities by providing them and their governments with technical assistance to enhance their competitiveness in global markets.

While Kenya has made a lot of progress in its trade policies, there is much room for improvement. According to a recent review of Kenya's national trade policy, the country still lacks a coherent framework for coordinating the formulation and implementation of its trade policy. As a result, its

[2] http://www.industrialization.go.ke/index.php/departments/state-department-of-trade
[3] http://kenyaembassydc.org/investinkenya.html

trade policies are scattered in various government documents and regulations characterized by lack of clear harmonization and coordination mechanisms. Moreover, the country suffers from weak policy implementation, the inability of its policies to correct the deteriorating balance of trade or spur the full use of its unexploited trade potential in the domestic, regional, and global markets (Ministry of Industry, Trade and Cooperatives, 2017).

AGOA's impact on Kenya

Kenya is one of AGOA's major non-oil producer beneficiaries. Between 2012 and 2016, it dominated the apparel/garments export sector, followed by Lesotho, Mauritius, and Madagascar. In that period, its exports in this sector rose from US$ 254 million to 339 million. AGOA has also significantly influenced Kenya's economy and society. Economically, by 2016, AGOA had enabled Kenya to have 111 firms in its export processing zones that produced most of its apparel/garment exports and employed over 52,000 workers. Collectively, these firms had slightly more than KES 64 billion in exports, over KES 68 billion in total sales, over KES 25 billion in local resource use, over KES 71 billion in total investments, and slightly more than KES 30 billion in imports (EPZA, 2017). Moreover, AGOA has enabled Kenya to revive its textile industry (USITC, 2014) and to expand and deepen its trade and investment with the U.S. by, for instance, developing an apparel export sector that is overwhelmingly dependent on the U.S. market (EPZA 2015). Some American apparel and clothes retailers, such as the PVH Corp, which owns the Calvin Klein and Tommy Hilfiger brands, have created additional jobs in the country through their local buying centers in Nairobi (USITC, 2014). Socially, AGOA has helped create jobs for marginalized groups like women and youth, especially in the EPZ firms. Nevertheless, EPZ work also comes with many challenges, including poor working conditions, low pay, temporary work, and sexual harassment for female workers. Below we expand on these impacts.

AGOA's trade impact

There was an overall growth in US-Kenya bilateral trade. U.S. imports from Kenya fluctuated, but increased significantly since AGOA's introduction in 2000 from US$ 110.2 million to US$ 591.3 in 2014 before declining to US$ 574 in 2017 (Table 2). The most significant decline during this period was in 2009 when Kenya's exports to the U.S. dropped to US$ 280.6 million because of the U.S. economic slowdown. U.S. exports to Kenya have also seen increases since the AGOA's introduction; they have increased from US$ 237 million in 2000, to a peak of US$ 1640.8 in 2014, before declining to US$ 456 million in 2017 (Table 2). A large share of U.S. imports from Kenya (over 85%) occurs under AGOA.

Table 2: US-Kenya trade in goods (US$ at nominal prices in millions)

Year	Annual U.S. Imports	Annual U.S. Exports	Trade balance
1992	72.9	124.2	-51.3
1993	92.2	131.2	-39.0
1994	108.7	169.5	-60.8
1995	101.5	114.0	-12.5
1996	106.4	104.6	1.8
1997	113.9	225.6	-111.7
1998	98.5	198.9	-100.4
1999	106.4	189.0	-82.6
2000	110.2	237.5	-127.3
2001	128.1	577.6	-449.5
2002	188.6	271.3	-82.7
2003	249.3	196.5	52.8
2004	352.2	347.5	4.7
2005	348.0	573.4	-225.3
2006	353.7	430.7	-77.0
2007	325.4	520.4	-194.9
2008	343.5	442.4	-98.8
2009	280.6	653.6	-373.0
2010	311.1	375.3	-64.2
2011	381.6	461.4	-79.9
2012	389.5	568.6	-179.1
2013	452.3	635.7	-183.4
2014	591.3	1640.8	-1049.5
2015	573.1	943.5	-370.4
2016	552.4	396.9	155.5
2017	574.0	456.0	118.0

Source: Compiled by authors from U.S. Census Bureau and AGOA.info.

Sectorally, textile and apparel products have dominated Kenya's exports to the U.S. under AGOA. Since AGOA's passage, its contribution to U.S. exports grew from zero, reached its peak in 2005, declined until 2011, before picking up again. Kenya was not the only country to experience a decline in this sector after 2005, which was driven partly by the rise in the U.S. market share of Asian apparel suppliers and the uncertainly and short-term renewals of the AGOA third-country fabric provision. Textile and apparel products accounted for 87% of Kenya's export value in 2016, followed by agricultural products (13%). While non-textile and apparel sectors have also shown some growth under AGOA, their growth rate has been less impressive (Table 3).

Table 3: Kenyan exports to the U.S. – major sectors, AGOA vs. GSP (2014-2016)

Sector	Category	Value in US$ '000			% of sector's total		
		2014	2015	2016	2014	2015	2016
Agricultural products	Imports by US	115,381	136,359	127,263			
	Combined AGOA imports (including GSP provisions)	44,370	61,672	51,320	38.5	53.5	44.5
	-- US GSP imports	2,575	3,544	2,613	2.2	3.1	2.3
	-- US AGOA imports	41,795	58,128	48,707	36.2	50.4	42.2
Forest products	Imports by US	982	728	635			
	Combined AGOA imports (including GSP provisions)	642	465	424	65.4	63.9	66.8
	-- US GSP imports	642	461	408	100.0	63.3	64.3
	-- US AGOA imports	0	4	16	0.0	0.5	2.5
Textile and apparel	Imports by US	379,300	369,059	340,930			
	Combined AGOA imports (including GSP provisions)	373,821	367,283	339,338	98.6	99.5	99.5
	-- US GSP imports	110	119	106	0.0	0.0	0.0
	-- US AGOA imports	373,711	367,164	339,232	98.5	99.5	99.5
Footwear	Imports by US	161	348	144			
	Combined AGOA imports (including GSP provisions)	113	307	112	70.2	88.2	77.8
	-- US GSP imports	0	0	0	0.0	0.0	0.0
	-- US AGOA imports	113	307	112	70.2	88.2	77.8
Miscellaneous manufactures	Imports by US	6,597	8,648	7,644			
	Combined AGOA imports (including GSP provisions)	3,543	3,832	3,767	53.7	44.3	49.3
	-- US GSP imports	2,015	1,215	1,094	30.5	14.0	14.3
	-- US AGOA imports	1,528	2,617	2,673	23.2	30.3	35.0
All sectors	Imports by US	591,319	573,208	552,480			
	Combined AGOA imports (including GSP provisions)	423,484	434,021	395,630	71.6	75.7	71.6
	-- US GSP imports	6,336	5,797	4,884	1.1	1.0	0.9
	-- US AGOA imports	417,148	428,224	390,746	70.5	74.7	70.7

Source: https://agoa.info/profiles/kenya.html

The growth of the textile and apparel sector has also been accompanied by diversification within the industry, expanded growth in existing product lines, and launch of new products. Various lines of knitted clothes, which Kenya did not export before AGOA, came online in 2005. Simultaneously, products (such as woven women's clothes and woven men's shirts) that dominated Kenya's pre-AGOA exports all saw declines after their 2005 peak (most dramatically so in the case of men's shirts) until they started picking up after 2011 (Table 4).

Table 4: Top 10 Kenyan textiles and apparel export to U.S. (1999, 2002, 2009, 2016) in US$ '000

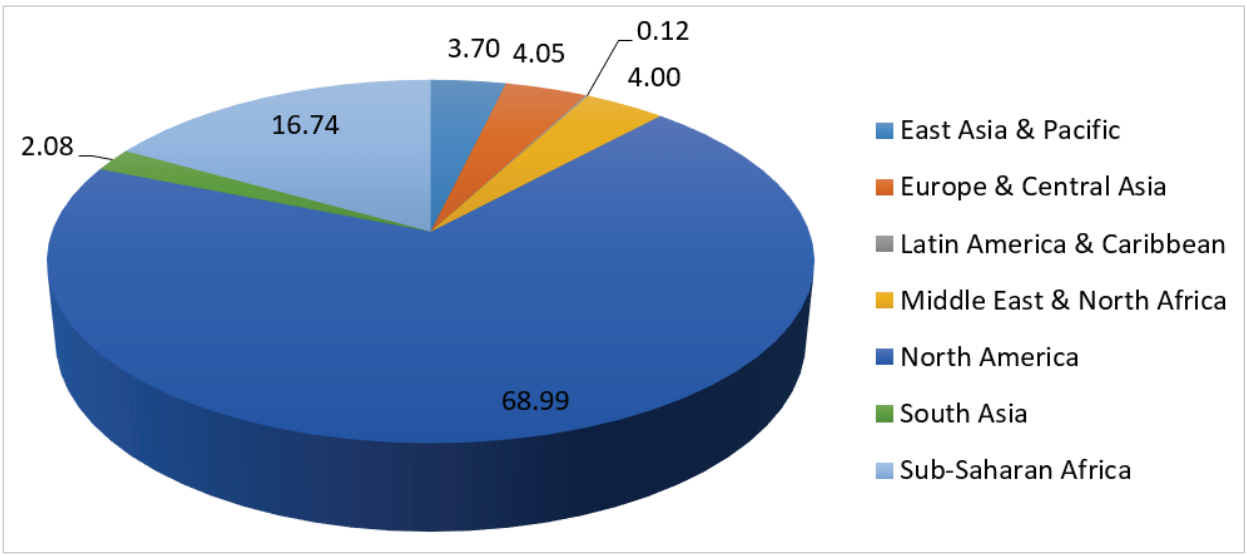
Pre-AGOA (1999) Top 10 T&A products	Early AGOA (2002) Top 10 T&A products	US economic downturn (2009) Top 10 T&A products	Current situation (2016) Top 10 T&A products
6204: Women's or girls' suits, ensembles, suit-type jackets, dresses, skirts, divided skirts, trousers, and etc. (no swimwear), not knitted or crocheted	6204: Women's or girls' suits, ensembles, suit-type jackets, dresses, skirts, divided skirts, trousers, and etc. (no swimwear), not knitted or crocheted	6204: Women's or girls' suits, ensembles, suit-type jackets, dresses, skirts, divided skirts, trousers, and etc. (no swimwear), not knitted or crocheted	6203: Men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches, and etc. (no swimwear), not knitted or crocheted
6205: men's or boys' shirts, not knitted or crocheted	6203: men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches, and etc. (no swimwear), not knitted or crocheted	6110: sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, knitted or crocheted	6204: women's or girls' suits, ensembles, suit-type jackets, dresses, skirts, divided skirts, trousers, and etc. (no swimwear), not knitted or crocheted
6203: men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches, and etc. (no swimwear), not knitted or crocheted	6110: sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, knitted or crocheted	6104: women's or girls' suits, ensembles, suit-type jackets, blazers, dresses, skirts, divided skirts, trousers, and etc. (no swimwear), knitted or crocheted	6110: sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, knitted or crocheted
6206: women's or girls' blouses, shirts, and shirt- blouses, not knitted or crocheted	6104: women's or girls' suits, ensembles, suit-type jackets, blazers, dresses, skirts, divided skirts, trousers, and etc. (no swimwear), knitted or crocheted	6203: men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches, and etc. (no swimwear), not knitted or crocheted	6104: women's or girls' suits, ensembles, suit-type jackets, blazers, dresses, skirts, divided skirts, trousers, and etc. (no swimwear), knitted or crocheted
6202: women's or girls' overcoats, raincoats, cloaks, anoraks (including ski- jackets) and similar articles, not knitted or crocheted, nesoi	6205: men's or boys' shirts, not knitted or crocheted	6103: men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches and shorts (no swimwear), knitted or crocheted	6105: men's or boys' shirts, knitted or crocheted

6201: men's or boys' overcoats, raincoats, cloaks, anoraks (including ski- jackets) and similar articles, not knitted or crocheted, nesoi	6208: women's or girls' singlets and other undershirts, slips, panties, nightdresses, pajamas, negligees and similar articles, not knitted or crocheted	6209: babies' garments and clothing accessories, not knitted or crocheted	6103: men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches and shorts (no swimwear), knitted or crocheted
6105: men's or boys' shirts, knitted or crocheted	6206: women's or girls' blouses, shirts and shirt-blouses, not knitted or crocheted	6111: babies' garments and clothing accessories, knitted or crocheted	6211: track suits, ski-suits and swimwear, not knitted or crocheted
6208: women's or girls' singlets and other undershirts, slips, panties, nightdresses, pajamas, negligees and similar articles, not knitted or crocheted	6103: men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches and shorts (no swimwear), knitted or crocheted	6105: men's or boys' shirts, knitted or crocheted	6205: men's or boys' shirts, not knitted or crocheted
6103: men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches and shorts (no swimwear), knitted or crocheted	6102: women's or girls' overcoats, carcoats, capes, cloaks, anoraks (including ski-jackets), and similar articles, knitted or crocheted, nesoi	6109: t-shirts, singlets, tank tops and similar garments, knitted or crocheted	6209: babies' garments and clothing accessories, not knitted or crocheted
6211: tracksuits, ski-suits and swimwear, not knitted or crocheted	6109: t-shirts, singlets, tank tops and similar garments, knitted or crocheted	6114: garments nesoi, knitted or crocheted	6109: t-shirts, singlets, tank tops and similar garments, knitted or crocheted

Note: Highlighted cells indicate new to the top-10 category
Source: Compiled from www.usitc.gov

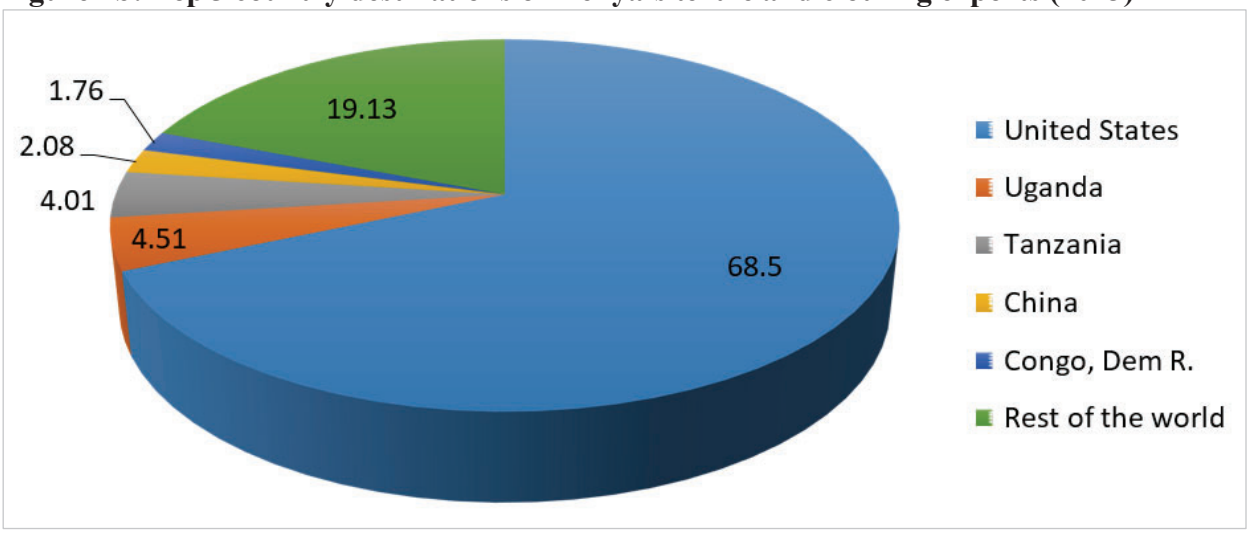
The destinations of Kenya's textile and clothing exports highlight the importance of trade agreements in this sector. Before AGOA's introduction, the COMESA countries were the primary recipients of Kenya's textile and clothing exports. Under AGOA, the U.S. has replaced COMESA countries as the dominant destination (68.5%) for Kenyan textile and apparel products. This is followed by SSA (16.74%), led by exports to COMESA countries, including Uganda, Tanzania, and the Democratic Republic of Congo (Figure 1a and 1b).

Figure 1a: Global destination of Kenya's textiles and clothing exports by region (2013)



Source: Based on data from World Bank, World Integrated Trade Solution (https://wits.worldbank.org/)

Figure 1b: Top 5 country destinations of Kenya's textile and clothing exports (2013)



Source: Based on data from World Bank, World Integrated Trade Solution (https://wits.worldbank.org/)

Although the non-textile and apparel sectors have also experienced growth under AGOA, their growth rate has not been impressive. For instance, coffee exports to the U.S. were significant before AGOA and have continued to do well under AGOA, but tea exports have not done as well during the study period. Nuts (specifically, macadamia) and cut flowers also experienced the fastest growth rates, averaging over 50% a year since AGOA's launch. The macadamia nuts markets represent a growth opportunity for AGOA. The U.S. market for nuts is growing at an average 13% a year. Although the top three suppliers have all been experiencing good growth, this has not been the case for Brazil and China, the 4th and 5th largest suppliers, which have experienced low to negative growth (Kenyan National AGOA Strategy, 2012). Thus, Kenya's increased production of this not-so-fast-perishable product can potentially compete favorably in the U.S. market. Even

though Kenya's cut flower exports to the U.S. started from a negligible base, they have increased rapidly since 2008. AGOA contributed to this growth through increased U.S. government-funded technical assistance to Kenya's horticultural sector, with a particular focus on increased exposure to U.S. markets. However, these non-textile and apparel exports seemed to have weathered the U.S. recession's storm in 2009 reasonably well. Netherlands remains the leading importer of cut flowers from Kenya, accounting for over half of the exports, with the U.S. ranking as the 12th largest importer with about 28% of Kenya's exports. U.S. imports of leather and leather products so far have not been significant. Since the Kenyan National AGOA Strategy (2012) does not even mention this sector, it has not explored its potential in penetrating the U.S. market.

AGOA's economic impact

Based on data from Kenya's EPZ firms, AGOA has had a significant effect on private investment and employment. Cumulative private investment from local and foreign sources in operating EPZ enterprises stood at over KES 71 billion in 2016. Overall, foreign investment in the EPZs generally accounted for over 70% of the total investments in 2010-2016, though it declined in percentage terms from a high of 81% in 2010 to 68% in 2016 (Table 5). The number of jobs in the EPZs has been consistently high and increasing, with over 98% of the jobs going to Kenyans (Table 5). Yet, there is the question of who benefits from AGOA. An examination of EPZ firm ownership and employment provides some answers to this question. Using EPZ firms as a proxy, we see that although the share of Kenyan-owned EPZ firms has increased since 2013, partly due to the Export Business Accelerator (EBA) work, most of the firms are foreign-owned (Table 6). In terms of employment, while most EPZ workers are Kenyans (Table 5), it is not clear what proportion of foreign-owned EPZ firm profits are reinvested in the country. Some would argue that Kenya is being used as a staging post for what are fundamentally foreign businesses.

Table 5: Value of EPZ enterprises' investments and employment: 2010 - 2016

Indicator	2010	2011	2012	2013	2014	2015	2016
Value of Kenya/local investments (KES million)	4,529	6,869	11,513	13,057	10,747	12,788	22,783
Value of foreign investment (KES million)	19,034	19,599	27,021	34,947	33,460	35,340	48,459
Total investment (KES million)	**23,563**	**26,468**	**38,534**	**48,004**	**44,218**	**48,128**	**71,242**
Ratio of value of Kenya/local investment to total (%)	19.2	26	29.9	27.2	24.3	26.6	32
Ratio of value of foreign investment to total (%)	80.8	74	70.1	72.8	75.7	73.4	68
Employment (Kenyans)	31,026	32,043	35,501	39,961	46,221	50,302	52,947
Employment (Expatriates)	476	421	428	472	517	597	618
Total Employment	**31,502**	**32,464**	**35,929**	**40,433**	**46,738**	**50,899**	**53,565**

Source: Export Processing Zones Authority, 2013, 2014, 2015, 2016, and 2017

Table 6: Ownership of EPZ Enterprises

Ownership	2012	2013	2014	2015	2016
Kenyan	25.6	30.6	33.7	33.7	35.1
Joint venture	24.4	29.4	25.6	22.3	24.3
Foreign	50.0	40.0	40.2	43.8	40.6

Source: Export Processing Zones Authority, 2013, 2014, 2015, 2016, and 2017

AGOA's social impact

We assessed AGOA's social impact through its effects on wage levels and its creation of jobs and entrepreneurship opportunities for women and youth. First, the overall monthly average wage for local employment within the EPZ has been on a steady increase over the years, from the equivalent of US$ 122 in 2008 to US$ 143 in 2016, which represented a 17% increase over the period. However, a comparison of the wages of Kenyan workers in the EPZ with those of expatriates show that although the average Kenyan wage is increasing, the gap between the two remains significant (Table 7).

Table 7: EPZ wage comparison Kenyans and expatriates (2008-2016)

Year	Average monthly wage locals (US$)	Average monthly wage expatriates (US$)	Wages of Kenyans as % of expatriates' wages
2008	122	881	13.85
2009	117	814	14.37
2010	122	1,464	8.33
2011	111	821	13.52
2012	125	924	13.53
2013	147	959	15.33
2014	154	985	15.63
2015	142	973	14.59
2016	143	1,021	14.01

Source: Export Processing Zones Authority, 2013, 2014, 2015, 2016, and 2017

Compared to others, the two sectors that dominated AGOA exports (garment and agro-processing) have the lowest wages (less than KES 20,000). Second, AGOA's social impact includes opportunities created for female entrepreneurs, even though the country's discriminatory and outdated labor laws are yet to address the gender issues that deny women and the youth from benefiting from AGOA. For female entrepreneurs, inequalities in accessing resources (such as

land, credit, and the ability to control additional income generated by trade) can determine whether they can accrue benefits or not. Third, anecdotal evidence shows that women and young people dominate EPZ employment in the garment and agro-processing sectors. However, women in the textile and clothing sector are often employed in low-skilled jobs, such as sewing and finishing. Male workers in the industry are generally older and employed as supervisors. Nevertheless, EPZ employment helps female workers improve their individual and family welfare and decision-making power, especially in patriarchic households. Finally, EPZ firms have been criticized for their harsh working conditions, prevalence of sexual harassment, and limited union representation. Women's employment conditions, including their lack of long-term employment opportunities, relatively low wages, non-provision of maternity and sick leaves, and long working hours, are all unfavorable to female workers in the sector.

Policy lessons

This analysis has shown that although Kenya has benefited from AGOA, several challenges are preventing the country from taking full advantage of this U.S. trade law. This section offers recommendations that can enable Kenya and other SSA countries to benefit more from AGOA.

Beyond AGOA and the U.S. market

Given that Kenya's opportunities under AGOA are driven more by U.S. trade policy than by the country's competitive advantage (Otiso, 2004), with the U.S. dominating the terms and conditions of the pact's renewal, Kenyan (and other African) leaders and investors should, for pragmatic and strategic reasons, think beyond AGOA and the U.S. market. Moreover, AGOA should not be allowed to become a substitute for the formulation of comprehensive and competitive industrial policies that can spur innovation and the product quality and process improvements to enable African products find markets beyond the AGOA-circumscribed U.S. market. This would ensure that the Kenyan economy and its exports are better cushioned from the global competition. The Kenyan government, through the Ministry of Industry, Trade and Cooperatives, with the support of other public and private stakeholders, including academic institutions, should spearhead this effort.

Make Kenya's apparel industry globally competitive

Kenya should make its apparel industry globally competitive by, among other things, benchmarking it against major global players (like Cambodia and Bangladesh) by "providing [it with] reliable and cheap electricity and water; improving access to good roads; reducing corruption that adds onto the cost of doing business; and providing incentives to foreign companies to establish plants in [Kenya and in] the [EAC] region" (Bekele, 2016: no pp).

Diversify Kenya's exports

Diversifying Kenya's exports would require looking beyond textile and apparel by exploring opportunities for exporting more coffee, tea, nuts, flowers, and home and fashion accessories to the U.S. (Omondi, 2018), and processing these raw materials into higher-value export products. Kenya should also take greater advantage of products such as tropical fruits, tobacco, fruit juice, and processed fish because these are potentially competitive based on its product space metric (Growth Lab, 2018). Similarly, given the country's high number of cattle and large exports of raw and semi-processed hides and skins, there is room for developing a vibrant and globally competitive leather industry like Ethiopia has done (World Bank, 2015).

To successfully diversify its exports and markets, Kenya should endeavor to increase its global market knowledge by, for instance, engaging in international market research and regularly participating in trade exhibitions to identify and cultivate new markets in Europe, Asia, the Middle East, the EAC, and the rest of Africa. Concerning the EAC, this can be done by raising the ceiling for domestic sales from 20 to 70% for partner states and removing any duty surcharges that may impede sales in this common market (EPZA, 2013). Moreover, the country could grow tea exports by developing procedures to facilitate tea exports to Kenya's world-famous tea auction in Mombasa (EPZA, 2015). Although lobbying the U.S. to make AGOA permanent (EPZA, 2013) is another market growth and extension option Kenya could pursue closer to AGOA's expiry in 2025, the country would be better served by improving the efficiency and global competitiveness of its manufacturing sector, including its textile and apparel industry. Even if Kenya's ongoing Free Trade Area talks with the U.S. succeeds (Schneidman & Dawson, 2020), the country would still need to improve the efficiency and global competitiveness of its manufacturing sector lest it drown in U.S. exports.

Provision of adequate infrastructure

Kenya should improve its transport infrastructure to ensure timely, cheap, and efficient delivery of its export products to the global market. In this regard, it is noteworthy that Kenya commissioned the first section of its standard gauge railway from Mombasa to Nairobi in mid-2017 and is working to improve its Mombasa port facilities. Equally important is the need to improve its road network, which plays a critical role in determining the cost of inputs such as cotton. A crucial part of making its export sector globally competitive is the development of the entirety of Kenya's transport sector; it is the circulatory system of any economy. This network would also need to be extended regionally if Kenya (and the broader EAC) hopes to grow its economy, lower the cost of its manufactured products, and make them affordable to the region's relatively poor population. Good transport is also central to making Kenya's exports globally competitive and developing local and regional markets that would protect its export firms from the vagaries of unpredictable foreign markets such as the U.S. to which it currently over-relies.

Additionally, while Kenya has invested substantially in its power generation and distribution in the last decade and has surplus power, it still has a substantial gap to close in providing its economy with reliable and affordable energy. This gap is due to many factors, including aging generation and distribution infrastructure, poor maintenance, low system redundancy, weather, reliance on seasonally variable hydropower supplies, vandalism, and inefficient power markets (Nation Team, 2018; Kenya Power, 2018; Vidija, 2018). Moreover, instead of just extending power subsidies to some firms, the country would be best served by supplying cheap and reliable power to all of its firms.

Making AGOA benefit Kenyans

Given that over 70% of Kenya's EPZ investments are foreign-owned with a huge pay gap between Kenyan and foreign EPZ workers, the government should explore ways to make Kenya benefit more from AGOA rather than merely being a staging post for foreign businesses. To achieve this end, there is a need for indigenous training and capacity building to produce a critical mass of professionals who can drive the country's textile and agro-processing industries to maximize its benefit from the US-Africa trade pact. This will also require ensuring the availability of affordable loans to the country's export enterprises. Therefore, the country should encourage its commercial banks to loan money to small and medium-sized export enterprises that are more likely to be owned

by locals. For this to occur, the government should curb its appetite for domestic borrowing to encourage the country's banks to lend more money to individuals and small to medium-sized enterprise (SMEs), thereby fostering a more robust and redistributive economy. Evidence from the Export Business Accelerator (EBA) pilot program in the Athi River EPZ shows that this is a promising model that can help more local entrepreneurs to benefit from AGOA. The program should be resourced and scaled up across the country and encouraged to work with SMEs to transition to export production.

Ensure enough domestic sources of cotton and other raw materials

Because of the importance of textile and apparel products in Kenya's AGOA exports, the country should maximize its gains from this sector by reviving and developing its domestic cotton supply chain industry. Encouragingly, cotton (and industrial crops like tea, coffee, sugar cane, sunflower, pyrethrum, barley, tobacco, sisal, coconut, and bixa, which together account for 55% of Kenya's agricultural exports) is one of the crops that Kenya's Agriculture and Food Authority is working to revive as it implements its 2016-2021 strategic plan. Among other goals, the plan seeks to boost Kenya's agricultural growth and productivity and to upgrade its agricultural value chains for an increased job and income creation (Agriculture and Food Authority, 2016).

Improve working conditions in AGOA firms

To improve working conditions in its AGOA firms, Kenya should strengthen its regulatory framework, including mechanisms for enforcement of laws regarding labor and other forms of human rights protections as envisaged under AGOA. This includes paying attention to gender and different social dimensions in EPZ enterprises to ensure that women and youth benefit from this trade program. For instance, because of entrenched gender and other social imbalances, few powerful women and youth entrepreneurs work in the country's major AGOA export sectors. Moreover, it is evident that female workers are neither well-protected nor remunerated for their labor in many country's export sectors. Additionally, women, who comprise the bulk of the labor force in the country's cut flower and textile and apparel sectors, are reportedly subjected to high sexual harassment incidences. Therefore, EPZ firms should be required to address any reports of sexual harassment promptly and effectively, mandated to provide sexual harassment sensitivity training to all its employees, and to employ more women in supervisory roles to address some of these challenges.

Improve policy environment and strengthen policy formulation and regulation

Kenya needs to create a competitive and stable economic policy environment, more so as it pertains to the export sector. Once established, the policy should be enforced consistently lest it, for instance, undermine foreign direct investment in the country. These conditions are currently undermined by high levels of corruption, mismanagement, and a fair amount of political instability (PBS, 2016). Besides, while Kenya is a leader in policy formulation in East Africa, thanks to its well-developed human resources, it has many policy regulation challenges that are more political than technical. As a result, its best technocrats are often overruled and demoralized by the appointment of politically connected policy novices to high-level positions. In addition to improving the management of the EPZs and ensuring that they are operating as efficiently as possible, the government should also fast-track the transformation of Kenya's EPZ program into the Special Economic Zones (SEZs) program (EPZA, 2013) to enable it to compete more favorably with China and other Asian countries.

Create a sustained stable political environment

Kenya needs to create a sustained stable political environment to achieve its socioeconomic development goals with or without AGOA. The country now has a new devolved government structure that promises to contribute to a more tranquil national political environment. Moreover, the country's overly competitive winner takes all presidential system should be tempered by, perhaps, diluting its presidential powers and making the country's political apparatus more inclusive and, thus, potentially more stable and less disruptive of its economy. If well attended to, this would encourage domestic and foreign investment, increase the chances of benefiting from AGOA, and help create more socioeconomic opportunities for its citizens.

Strengthen the country's trade negotiation ability to maximize gains from trade deals

In today's world, the difference between winning and losing comes down to one's negotiating skills. For Kenya to do well in this area, it must not only invest in high-quality negotiation capacity-building training for its negotiators, but it must also hire, keep, and empower the right people for these roles. As noted earlier, this is currently difficult to do because of the undue influence of corruption, cronyism, and negative ethnicity in the nation's affairs. Merit should be the overriding criteria in the country's trade negotiators' appointment as much as possible. Effective enforcement of anti-corruption laws and policies will also help deter conflict-of-interest instances among the country's trade negotiators.

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