THE CHIEF EXECUTIVE OFFICERS' PERCEPTION OF THE BENEFITS OF AFRICAN GROWTH OPPORTUNITY ACT (AGOA) ON KENYAN EXPORTS TO AMERICAN MARKETS THROUGH EXPORT PROCESSING ZONES (EPZs)

BY

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DECLARATION

I declare that this research project report is my original work and it has never been submitted to any other institution for examination purposes.

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D61/P/8019/2002

This is to certify that this research project report has been submitted with my permission and authority as the university supervisor.

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DEDICATION

This Project Report is dedicated to the three important ladies in my life - my loving mother Yunuke who cared and saw me through childhood, my dear wife Lillian who has continued to support me through adulthood and my little angel Tigen who gives me reason to wake up and smile everyday. May they continue to appreciate and value the power of knowledge and love.

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ABSTRACT

Globalization has been a key factor in socio-economic and political decisions by governments and major corporations. Efforts have been made to craft and implement sound strategies in the face of globalization. The Kenya government enacted the EPZ Act, to promote export oriented industrial investment and achieve export led growth. The enactment of African Growth and Opportunity Act (AGOA) presented an opportunity to attain this objective and for EPZ firms to access the substantial US markets. Concerns have been raised that the benefits of AGOA are yet to be felt and the provisions of the Act are not favouring export led growth and EPZ firms. This study aimed at assessing the perceptions of Chief Executive Officers (CEOs) of the benefits of AGOA on Kenyan exports through the EPZs to the American markets.

Using a survey design, the researcher collected data from the CEOs of firms operating in the EPZs and the CEOs of the Export Processing Zone Authority (EPZA), the Export Promotion Council (EPC) and the Kenya Investment Authority (KIA). Out of a convenience sample of 39 EPZ firms, 32 of them and the 3 institutions (EPZA, EPC and KIA) provided data that was analyzed to assess the perception of the benefits of AGOA on Kenyan exports through the EPZs to the American markets. The period of the study was between August and September 2006.

This study has established that there are real benefits of AGOA such as an increase in exports, duty free access to the US markets, product promotion and unlimited export market opportunity for EPZ firms and a major consideration to set up business in the EPZ is the access to the US market under AGOA. Other benefits include creation of employment

opportunities, increased Foreign Direct Investment, generation of foreign exchange, etc. However, there are challenges such as; limited product ranges, stringent quality standards, stiff international competition, strained labour relations, heavy investment and operating costs, unfavourable exchange rates, low labour productivity, inability to retain investors once the Act lapses, and imbalance in sectoral investment and growth.

To meet these challenges, the government, EPZ firms and other stakeholders should lobby for and diversify export products, fully exploit provisions of the Act, improve efficiency in production of textile products, enhance infrastructure, technology and sourcing strategies, avail tax concessions to reduce costs, reliance on imported inputs to attain a competitive position. There is also need for an efficient industrial and labour relations system, recruitment and training of talent and provision of amble infrastructure facilities.

CHAPTER ONE: INTRODUCTION

1.1 Introduction

This chapter presents the background information to the study, the statement of the problem, the research objectives and outlines the importance of the study.

1.2 Background of the Study

One of Kenya's key strategies in its economic development efforts is the achievement of an export led growth. It is felt that an export led growth would bring more investors and earn the country the much needed foreign exchange which would in turn enable it procure vital goods and services that are critical to its overall socio-economic development drive. Increase in flows of foreign currency to the country from the country's exports would lead to increase in investments which would further lead to the creation of new jobs in the country. In addition, the country's revenue base would be expanded, leading to the collection of more revenue to help meet the challenges in running the machinery of government. Prosperity would be visibly noticed in the country's economy. It is against this background that Kenya established the Export Processing Zones (EPZs) program in 1990 with the enactment of the Export Processing Zones Act (CAP 517 of the Laws of Kenya).

The program, managed by the EPZ Authority, promotes export oriented industrial investment within designated zones. EPZ investors are provided with fiscal incentives together with simplified operating procedures and good infrastructure. Furthermore, the EPZ Authority gives facilitation and after care services to new and existing investors who are also assured lower operational costs, faster set up and smoother operations.

The Government of Kenya has also put in place appropriate export support structures and incentives have been made available to exporters. Export promotions have been introduced. Appropriate infrastructure has been installed and standards have been put in place (Government Sessional Paper, 2003).

1.2.1 Global Business Strategy

Recent years have witnessed a marked acceleration in the tempo of globalization. This powerful force has been associated with far reaching consequences on national, regional, and global economic structures. Globalization is reflected in the increased acceptance of free market and private enterprise as the principal mechanism for promoting economic activities. Globalization has had some important economic consequences with implications on both the EPZ and non-EPZ firms. According to Ikiara and Odhiambo (2001) globalization has led to; reduced market distortions associated with some static gains in efficiency, reduced barriers to the movement of goods, services and factors of production, greater competition with implication on both management styles and technology and witnessed a revolution in telecommunication with major changes in business operations.

Globalization has affected EPZ operations in a number of ways in various regions of the world. It has increased changes in consumer preferences and put pressure on producers to respond to the changes as quickly as possible. It has also simplified and facilitated easier and faster movements of factors of production at lower costs, leading to a considerable segmentation of production processes which in turn reduced the importance of country specific advantages (Madani, 1999). Thus EPZ investors can easily relocate to geographical areas close large markets or where they stand a chance of accessing substantial markets.

Greater export market opportunities arise through active involvement in regional integration efforts and memberships that enable firms enjoy trade preferences. Kenya is a member of the Common Market for East and Southern Africa (COMESA) and the East African Community (EAC) in an effort to create a larger market for its firms. Although EPZ firms do not automatically qualify for trade preferences within COMESA since EPZs are regarded as being outside the customs territory, they may enjoy preferential treatment if they satisfy the rules of origin in terms of sourcing at least 35% of their inputs from the region. With the introduction of AGOA, the EPZ firms have yet another opportunity to access the United States of America (USA) markets at preferential terms.

1.2.2 The African Growth Opportunity Act (AGOA)

The Senate of the USA passed the African Growth and Opportunity Act (AGOA) in 2000. AGOA, which became law in May 2000, under the Clinton administration. The Act gives preferential treatment to 36 countries in the Sub-Saharan Africa, including Kenya.

A US Department of Commerce report (2002) indicates that AGOA allows duty free trade in designated goods within the USA markets. The report further argues that although AGOA is sometimes criticized as a program designed to win support for the US from developing countries, AGOA appears to have brought substantial investment to the region. As participation in the Act relies on free market economics, political stability and the rule of law, the AGOA program is also seen as an important tool in promoting development in Sub-

Saharan Africa. It is assumed to be leading to increased Foreign Direct Investment (FDI) as foreign companies, particularly from Asia, move to take advantage of the tariff-free-trade with America.

AGOA has now been in place for almost six years. It is now worth examining the benefits it has had on trade with particular reference to perception of CEOs on its impact on the Kenyan exports through EPZs. Based on the notification of eligibility, AGOA provisions have been applicable to Sub-Saharan African countries from 2000. The early trends could provide some indication of the changes in sub-Saharan Africa-US trade owing to AGOA. At the same time it would be prudent to establish the relationship of AGOA as an export strategy with the EPZ concept, which was implemented in the 1990s by the Kenya Government with related objectives.

1.2.3 Free Markets

A free market is a market where price is determined by the unregulated interchange of supply and demand. This is in contrast to a controlled market where supply, demand, and price are set directly by government. A Philosophy definition of free market is a market where trades are morally voluntary and therefore free from the interference of force and fraud. The notion of a free market is closely associated with laissez-faire economic philosophy, which advocates approximating this condition in the real world by mostly confining government intervention in economic matters to regulating against force and fraud among market participants. Hence, with government force limited to a defensive role, government itself does not initiate force in the marketplace and the free market is preserved.

In political economics, the opposite extreme to the free market economy is the command economy, where decisions regarding production, distribution, and pricing are a matter of governmental control. In other words, a free market economy is "an economic system in which individuals, rather than government, make the majority of decisions regarding economic activities and transactions." In social philosophy, a free market economy is a system for allocating goods within a society: supply and demand within the market determines who gets what, and what is produced. Early proponents of a free-market economy in 18th-century Europe contrasted it with the mediaeval, early-modern and mercantilist economies which preceded it.

1.2.4 The Exports Processing Zones (EPZs)

Export Processing Zones (EPZs) in Kenya were established following a USAID financed study in 1989. On the basis of the findings and recommendations of the study, the Government proceeded rapidly to create an enabling EPZ environment. Accordingly, the Export Processing Zones Authority was established under the EPZ Act (Cap 517 of the Laws of Kenya) in 1990. The Act provides for the institutional, legal and incentive framework for the EPZ development programme. The objective of the EPZ Programme is to attract new investments and as a result generate employment opportunities directly in EPZs and indirectly through subcontracting, contract work and sourcing of raw materials and services, earn foreign exchange through the promotion of non-traditional exports, achieve technology transfer and expertise in management, marketing and production, create forward and backward linkages in supply of goods and services and promote regional development through development of zones in various regions (Kimuyu and Wagacha, 1996).

An Export Processing Zone is any area that for the time being is designated by law as outside the national territory for the purpose of the operation or the customs laws. Essentially, an EPZ is a promotion instrument aimed at attracting a percentage of the flow of mobile international investment producing goods for export; and encouraging local or indigenous manufacturers to focus on export development.

What the EPZ does is to put together a neat package of incentives that include; freedom to import raw materials and equipment free of duty and restrictions, simplified customs procedures for import and export, minimum bureaucracy in approval procedures prior to establishment and minimum government interference while in operation, tax incentives as well as good infrastructure and production facilities. These incentives are expected to attract investment that should lead to economic growth and development of the country (Republic of Kenya, 2002).

According to Ikiara and Odhiambo (2001), the first modern EPZ was established in 1960 at Shannon Airport in Ireland. Within ten years, the Shannon EPZ employed 8000 workers and accounted for 20% of Ireland's manufactured exports. Ireland's success was quickly copied by a number of Asian countries. Taiwan was the first country to duplicate the concept with the creation of three zones between 1960 and 1971. Shortly after the establishment of these zones, Taiwanese EPZs were responsible for 70,000 jobs and over $I.5 billion in annual exports. During the I970s, as Taiwan extended EPZ-style incentives to the entire country, the zones produced more than 71,000 jobs while Korean zone programme was regularly producing more than 5,600 million in annual export sales. EPZ programmes have also been successful outside the Far East. In Mauritius, the EPZ regime reduced the unemployment rate of 12% in 1982 to less than 4% in 1990; labour shortages in critical sectors began to surface. EPZ firms in 1990 numbered over 30 and employed 120,000 workers.

1.3 Statement of the Problem

The African Growth opportunity Act (AGOA), America's flagship for promoting exports from Sub-Saharan Africa to its markets appears to have limited success. AGOA's objectives are to increase trade between the US and Sub-Saharan Africa through the preferential treatment of designated exports to the US markets, to integrate the Sub-Saharan region into the global economy and expand US assistance to regional integration in Africa. AGOA also proposes to use investment guarantees to mobilize private foreign investment in Africa. Being a new strategy that is deemed to jump start economic growth in the least developed countries in sub-Saharan Africa, AGOA's actual benefits and impact are worth examining to determine where it falls short of its objectives and the challenges it presents.

In its pursuit of its export led growth strategy in its economic development, Kenya established the Export Processing Zones in 1990 with the sole objective of producing items for the export market. The Government of Kenya has instituted export support systems that include incentives to exporters and export promotion. The infrastructure in the EPZs has improved and standards such as ISO 9000 are in place (www.epzkenya.com).

According to the EPZA, the EPZs performed very well despite the country's dismal sign of recovery in 2001 when the GDP expanded by only 0.75% up from 0.3% when the manufacturing sector was on a general decline (EPZA Annual Report, 2001). It is further reported in the 2001 EPZA Annual Report that the number of zones grew by 23% in 2000 after the introduction of AGOA to 24, of which 11 were in Nairobi and 13 in Mombasa.

Operating enterprises grew by 63% to 39 up from 24 the previous year, providing employment to 22,000 people (EPZ Annual Report, 2001). Thus, indications are that the two strategies are complimenting each other and it would be worthwhile to evaluate the benefits of AGOA alongside the EPZ concept so as to establish the nature of the relationship and to evaluate the success of AGOA as an element in the development of a strategy for export led growth.

There have been concerns expressed by the Chief Executive Officers (CEOs) of the EPZs on the success of the opportunities created for the African countries qualified under AGOA. The major concerns have been the limited period of AGOA and the range of products that qualify for preferential treatment in American markets. There has been intense lobbying to include agricultural products in addition to the textile and apparel products, maintain or extend the quota system of textile exports to America from Asian countries particularly China and extend AGOA beyond 2007. A World Bank study (Brenton and Ikezuki, 2004) reveals that at present only a small number of countries receive substantial benefits and Least Developed Countries (LDCs) that do not receive preferences for clothing have yet to see the impact of AGOA on their overall exports. The main purpose of this study will therefore be to assess the perceptions of the CEOs of the benefits of AGOA on Kenyan exports through the EPZs to the American markets.

1.4 Objectives of the Study

The objectives of the study were:

i. To assess the CEOs perception of the benefits of AGOA to the EPZs;

ii. To find out the challenges posed by AGOA to the firms at the EPZ.

1.5 Importance of the Study

This study will be important to firms operating in the EPZ and investors, the Government of Kenya, the management of EPZs i.e. EPZA, and the US Government. To the EPZ firms and investors, the study will create an understanding of the benefits and opportunities presented by AGOA to local and foreign firms, current and prospective investors and the role played by the EPZ. It will also enable them appreciate the challenges faced by the firms currently operating at the EPZs and hence enable them make informed investment decisions and also join lobbying for extension of AGOA to secure a steady market for their products.

To the Government of Kenya, the findings of the study will help the Government in the evaluation of its export–led economic growth policy and know the challenges faced by firms in delivering this strategy. The Government will use the information to adjust and adapt its processes with a view to contributing to the success of the factors that facilitate exports of firms in the EPZs.

To the management of EPZA, the success of the EPZ scheme is premised on the availability of reliable markets for products of the EPZs and all the support systems in the export process. The reliable markets and the support systems would also play a catalytic role in attracting investors to the EPZs in the realization that their products will find ready markets. The study, thus, will assist the management of the Authority to appreciate the complementary role played by AGOA and therefore join in lobbying for the extension of the Act and inclusion of a wider range of products under the scheme.

The study will assist the Government of America in evaluating the success of AGOA as an export and development strategy for Africa. One of the areas the US Government may have to consider is to extend the AGOA period and possibly encourage the production of more items that could be beneficial to the growth of the Kenyan economy on a wider scale, for example agricultural products.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This Chapter presents literature that has been reviewed for the purposes of the study. The literature is mainly on the Export Processing Zones, the export drive in general and in particular, the support that the government provides to the export effort, the infrastructure associated with export trade, the promotion of exports and the observance of standards and specifically ISO 9000 on exports.

Literature on similar studies on the perception of the benefits of AGOA on the Kenyan exports to American markets through EPZs have not been found. However, extensive publications exist on Kenyan exports, on government export support systems including tax havens, infrastructure, promotion for exports through lobbying and participation in regional integration and global business initiatives.

2.2 The Global Business Strategy

Globalization means that world trade and financial markets are becoming more integrated. Deloitte Research (2005) defines globalization as economic and political unity among countries and regional trading blocks. Definitions of globalization vary, but they share two core ideas. First, opportunities for doing business across national borders are growing. Second, the risk of international conflict is dwindling—the only prospect of violence is from outmoded dictatorships and religious reactionaries, and they are on the wrong side of history.

But just how far have developing countries been involved in this global integration? Bordo et al, (1999) asserts that the experience of developing countries in catching up with the advanced economies has been mixed. In some countries, especially in Asia, per capita incomes have been moving quickly toward levels in the industrial countries since 1970. Nicholas, (2000) has observed that a larger number of developing countries have made only slow progress or have lost ground. In particular, per capita incomes in Africa have declined relative to the industrial countries and in some countries have declined in absolute terms. The countries catching up are those where trade has grown strongly.

IMF (2000), a study on the world economic outlook found out that developing countries as a whole have increased their share of world trade–from 19 percent in 1971 to 29 percent in 1999. For instance, the Newly Industrialized Economies (NIEs) of Asia have done well, while Africa as a whole has fared poorly. The composition of what countries export is also important. The strongest rise by far has been in the export of manufactured goods. The share of primary commodities in world exports - such as food and raw materials - that are often produced by the poorest countries has declined.

An IMF fact sheets, (www.imf.org) has observed that due to globalization, there has been a sharp increase in private capital flows to developing countries during much of the 1990s. Workers move from one country to another partly to find better employment opportunities. The numbers involved are still quite small, but in the period 1965-90, the proportion of labor forces round the world that was foreign born increased by about one-half. Most migration occurs between developing countries. But the flow of migrants to advanced economies is likely to provide a means through which global wages converge. There is also the potential for skills to be transferred back to the developing countries and for wages in those countries to rise.

Breton and Ikezuki (2004) have underscored the role and importance of information exchange due to globalization. To them, information exchange is an integral, often overlooked, aspect of globalization. For instance, direct foreign investment brings not only an expansion of the physical capital stock, but also technical innovation. More generally, knowledge about production methods, management techniques, export markets and economic policies is available at very low cost, and it represents a highly valuable resource for the developing countries.

The economies in transition from planned to market economies are becoming more integrated with the global economy. In fact, the term "transition economy" is losing its usefulness. According to Bordo et al (1999) some countries (e.g. Poland, Hungary) are converging quite rapidly toward the structure and performance of advanced economies. Others (such as most countries of the former Soviet Union) face long-term structural and institutional issues similar to those faced by developing countries.

Bondo et al (1999) have outlined five reasons as to why globalization is so unstoppable. First, leaders around the world have concluded that capitalism and open markets are the best means for achieving economic well-being. Secondly, as global market forces gain momentum, national governments become less significant in international affairs and are therefore less likely to interfere with international commerce. Thirdly, the spread of democracy promotes international harmony because democratic governments don't go to war with each other.

Fourthly, technology advances - particularly those involving media and communications, foster cross-border linkages and lastly globalization serves the purposes of powerful Western political and economic interests, notably those of the US.

However, according to Deloitte Research, (2005) globalization trends could be reversed as a result of a number of forces. One of them is hostility between developed and developing nations, the factor being blamed for the shutdown of the Cancun (Mexico) meeting. The other forces as identified by Deloitte Research are as great: These include the US going its own way rather than cooperating with other nations, competition between rival regional blocs such as the EU v. the US, increasing friction between individual countries such as China and Japan, conflict over access to resources such as water and oil, and worldwide financial instability.

Harvey (2003), one naysayer of globalization argues that as the new millennium dawns, the same seeds of global disorder, even anarchy that grew into the years 1914-45 are being sown. Racialism and ethnic nationalism are already on the rampage on a small scale. Bigger powers show signs of going their own way. America is disengaging from Europe and vice versa, Germany and Japan are becoming more politically assertive, and China is rearming.

There are diverse opinions and reasons for and against globalization as presented by the proponents of globalization and those against globalization. This is as a result of divergence in philosophy and the examples each group draws from. Considering China, India and other Far East Tigers (Singapore, Malaysia and South Korea), globalization has enhanced their economic growth and prosperity. Conversely, Third World – Least Developing Countries particularly in Africa, have not attained much economic prosperity through globalization.

Micklethwait and Wooldridge (2000) have made an assessment of those who are for and against globalization. They have observed that those who favor globalization see it as forming a world that is not only tightly connected but peaceful and prosperous. Globalization's critics see downsides such as financial instability, labor exploitation, environmental damage, and Western domination. But while globalization's champions and detractors differ about its effects, they agree it's a potent force. Globalization has become, quite simply, the most important economic, political, and cultural phenomenon of our time.

Despite this general concerns that globalization has led to economic imbalance and domination by the western and developed countries, this study is built on the premise that globalization is unstoppable and necessary to attain economic prosperity though regional integration, reduced protectionism by the developed countries (free market), genuine concern and preferential treatment of LDCs to attain at least a fair balance in international trade.

2.3 African Growth and Opportunity Act (AGOA)

In May 2000, the U.S. Congress approved legislation known as the African Growth and Opportunity Act, or AGOA (Title I, Trade and Development Act of 2000; P.L. 106-200). The purpose of this legislation was to assist the economies of sub-Saharan Africa and to improve economic relations between the United States and the region.

2.3.1 Eligibility

The legislation authorized the President of the United States to determine which sub-Saharan African countries would be eligible for AGOA on an annual basis. The eligibility criteria was to include improved labor rights and movement toward a market-based economy. Each year, the President evaluates the sub-Saharan African countries and determines which countries should remain eligible. Currently, there are 37 AGOA-eligible countries.

2.3.2 Benefits and Results

AGOA provides trade preferences for quota- and duty-free entry into the United States for certain goods, expanding the benefits under the Generalized System of Preferences (GSP) program. An IMF assessment of the world economy, IMF (2000) noted that AGOA expanded market access for textile and apparel goods into the United States for eligible countries. This resulted in the growth of an apparel industry in southern Africa, and created hundreds of thousands of jobs. However, the dismantling of the Multi Fibre Agreement's world quota regime for textile and apparel trade in January 2005 reversed some of the gains made in the African textile industry due to increased competition from developing nations outside of Africa, particularly China. Already, many factories have been shut down in Lesotho, where most of the growth occurred. However, following the imposition of certain safeguard measures by US authorities, orders from African manufacturers stabilized somewhat. Still, Africa is the only region that has in fact a reduced share of the US apparel import market following the phasing out of quotas.

According to the U.S. Agency for International Development, (2000), AGOA has resulted in limited successes in some countries. In addition to growth in the textile and apparel industry, some AGOA countries have begun to export new products to the United States, such as cut flowers, horticultural products, automotives and steel. While Nigeria and Angola are the largest exporters under AGOA, South Africa's exports have been the most diverse and unlike the former are not mainly concentrated in the energy sector. To some countries, including

Lesotho, Swaziland, Kenya and Madagascar, AGOA remains of critical importance. Agricultural products are a promising area for AGOA trade, however much work needs to be done to assist African countries in meeting U.S. sanitary and phytosanitary standards. The U.S. government is providing technical assistance to AGOA eligible countries to help them benefit from the legislation, through the U.S. Agency for International Development (USAID) and other agencies. The U.S. government has established three regional trade hubs in Africa for this purpose, in Accra, Ghana; Gaborone, Botswana; and Nairobi, Kenya.

Initially, AGOA was set to expire in 2008. In 2004, Congress passed the AGOA Acceleration Act of 2004, which extended the legislation to 2015. The Act's apparel special provisions, which permits lesser-developed countries to use foreign fabric for their garment exports, expires in September 2007 and according to the Office of the United States Trade Representative, (October 2000), in the year 2006 to 2007, the special quota for apparel using third-country fabric is in addition reduced by half, and will be allocated on a first-come-first-serve basis.

Every year an AGOA Forum is held, which brings together stakeholders from Africa and the United States. During this year's Forum held in Washington D.C., the Wall Street Journal (August 2006) reported that the US policy makers indicated that this third-country fabric provision (essentially a relaxation of the normal Rules of Origin) may well be extended; however, a complicated legislative process would need to precede this.

While AGOA is often synonymous with preferential garment exports, the fact remains that AGOA opens the US market to a large number of African-sourced goods that are able to enter the United States free of import duty.

2.4 Mechanisms for Free Markets

In an absolutely free-market economy, all capital, goods, services, and money flow transfers are unregulated by the government except to stop coercion that may take place among market participants. As this protection must be funded, such a government levies taxes only to the extent necessary to perform this function. This is also known as laissez-faire. According to Smith (1998), free markets are advocated by proponents of economic liberalism; in Europe this is usually simply called liberalism. In the United States, support for free market is associated most with libertarianism. Since the 1970s, promotion of a global free-market economy, deregulation and privatization, is often described as neoliberalism.

The term free market economy is sometimes used to describe some economies that exist today (such as Hong Kong), but pro-market groups would only accept that description if the government practices laissez-faire policies, rather than state intervention in the economy. An economy that contains significant economic interventionism by government, while still retaining some characteristics found in a free market is often called a mixed economy.

Smith (1998) argues that a free market does not require the existence of competition, however it does require that competition is not prevented by coercion. Hence, in the lack of coercive barriers it is generally understood that competition flourishes in a free market environment. It often suggests the presence of the profit motive, although neither a profit motive nor profit itself are necessary for a free market. All modern free markets are understood to include entrepreneurs, both individuals and businesses. Typically, a modern free market economy would include other features, such as a stock exchange and a financial services sector, but they do not define it.

2.5 Exports Processing Zones (EPZs)

Export Processing Zone development has increased dramatically over the past twenty years and while the incentives packages and market orientation of these programmes vary in their scope and content, basic principles can be identified as common to successful EPZ programmes in any location.

Whitaker (2003) provides an overview of the global evolution of EPZs and the fundamental elements defining the framework for successful EPZ programmes. Since the introduction of EPZs in developing countries during the 1960s, a variety of changes have occurred. Global corporations have accelerated direct investments and sourcing relationships with EPZs but have become less willing to accept government owned and operated zones and more insistent on world-class standards of services and amenities.

According to Whitaker (2003), successful EPZ programmes have responded to investor requirements through:

- **Private Zone Ownership and Management:** Reflecting the demonstrated preference of many investors for privately managed EPZ projects, private zones are now at the forefront of EPZ growth in the Dominican Republic, Costa Rica and Mexico in Latin America, Togo, Cameroon and Kenya in Africa and China and Indonesia in Asia.

- **More Comprehensive Incentives:** Increased global competition among zones has led governments to seek to remove constraint on investment and employment growth, such as: de-monopolizing utilities for zone-based firms, abolishing wage and price controls, expediting investment approval procedures, allowing zone firms to sell a portion of their production in local markets, and "single factory" EPZ destinations.
- **Upscale Facilities and Services:** To attract technology-intensive firms, EPZs also have introduced satellite earth stations on premises, provided assistance to employers in screening workers and arranging specialized training services.

Ikiara and Odhiambo (2001) argue that while these new trends in zone development are changing the global context for EPZ development, the most critical element in establishing a successful programme has proved to be the commitment of the government to the straightforward and effective implementation of the regime, and to macroeconomic policies in support of the export sector.

Whitaker (2003) found out that in the 1980s, countries world-wide increasingly recognized the benefits to be gained from economic liberalization and from the increasing role of the private sector in the economy. In particular, as the limitations of import substitution policies as a means to encourage economic growth becomes increasingly evident, the need to stimulate the development of non-traditional manufactured exports has become a heightened priority.

According to Ikiara and Odhiambo (2001) many economies remain characterized by policies and regulations that are significantly biased against exports. In addition, export manufacturers operating in a developing country environment often encounter a host, of other constraints that impede their ability to compete in international markets effectively. Typical distortions and constraints experienced by manufacturers include; high duties and other tariffs on imported raw materials, intermediate goods, and capital equipment; overvalued exchange rates, inefficient and problematic infrastructure, lack of local expertise, impaired access to foreign exchange and artificial wage structures.

In order to overcome these constraints a number of developing countries have successfully used export processing zones as an effective way to eliminate the bias against exporters, and to encourage foreign investment in export manufacturing. Since EPZs have proven to be successful in stimulating the growth of non-traditional exports, creating employment, and mobilizing private sector resources and initiative, their overall policy ramifications can be appreciated.

Jones (2001) argues that while EPZs are not the only policy mechanism available to stimulate exports, they compare favourably to other types of export incentive regimes both in the administrative ease with which investments can he approved and incentives granted to exporters, and in the monitoring and controls on on-going operations. Ikiara and Odhiambo (2001) concluded that EPZs have been successfully used in the short-term to introduce market-oriented economic and institutional reforms in a targeted manner for the export sector, and more importantly, in the longer term as a way to demonstrate the attractiveness of broader economic policy liberalization. According to FKE (2003), as at November 2001, there were 23 legally designated EPZs in Kenya spread over a number of locations as detailed in Appendix 1.

2.6 The Conceptual Framework

The conceptualization of the study will be based on three strategies that have similar objectives of facilitating exports to American markets. The first strategy is the global business strategy that preceded the AGOA strategy. The other two strategies are the ones that EPZs implemented in the 1990s to facilitate the growth of an export led economy in the country and AGOA enacted in the USA so as to give preferential treatment to designated goods from Sub-Saharan African countries free entry into the American markets so as to facilitate growth of economies that are driven by exports. The independent variables are the three export strategies, the Global Business Strategy, EPZs and AGOA. The dependent variables are the exports from Kenya to the American markets. The relationship of the variables is depicted in Figure 1 below.

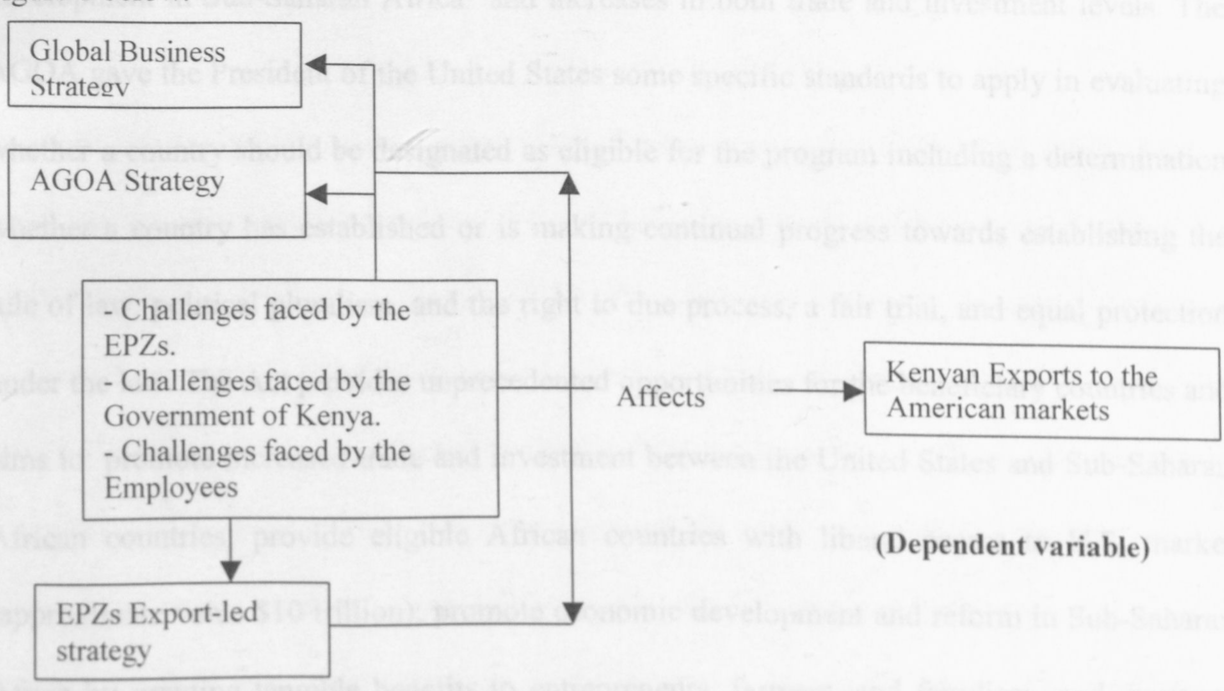

FIGURE 1: THE CONCEPTUAL FRAMEWORK

Source: Author (2006)

2.7 The AGOA and its Principal Provisions

The Office of the United States Trade Representative, (October 2000) reported that on 18th May 2000, the President of the United States signed into law the Trade and Development Act of 2000 which included the African Growth and Opportunity Act (AGOA) that provides for duty-free treatment of certain articles imported into the United States from designated beneficiary countries of Sub-Saharan Africa if he determines that such articles are not "import sensitive" in the context of imports from beneficiary countries.

The stated intent of AGOA is the promotion of "stable and sustainable economic growth and development in Sub-Saharan Africa" and increases in both trade and investment levels. The AGOA gave the President of the United States some specific standards to apply in evaluating whether a country should be designated as eligible for the program including a determination whether a country has established or is making continual progress towards establishing the rule of law, political pluralism, and the right to due process, a fair trial, and equal protection under the law. The Act provides unprecedented opportunities for the beneficiary countries and aims to: promote increased trade and investment between the United States and Sub-Saharan African countries; provide eligible African countries with liberal access to U.S. market (approximate value $10 trillion); promote economic development and reform in Sub-Saharan Africa by granting tangible benefits to entrepreneurs, farmers, and families; and, promote increased access and opportunities for U.S. investors and businesses in Sub-Saharan Africa.

The Act also provides the following:

a) Establishment of a U.S. Sub-Saharan Africa Economic Cooperation Forum;

b) Expanding U.S. assistance to Sub-Saharan Africa's regional integration efforts;

c) Expanding the Generalized System of Preferences (GSP) program to provide duty-free treatment to virtually all products exported to the U.S. from Sub- Saharan Africa;

d) Institutionalizing a high-level economic dialogue and take initial steps toward consideration of a Free Trade Area;

e) Protecting African workers and U.S. jobs through the creation of tough safeguards against trans-shipment; i.e., shipping an item through a beneficiary country that was in fact manufactured in a third country so as to gain illegal access to the American market on preferential terms; and

f) Requiring that human rights and internationally recognized workers' rights be respected.

According to the Office of the United States Trade Representative (October 2000), AGOA builds on the existing GSP programs designed to increase trade and investment between the United States and developing countries. GSP offers duty-free treatment to imports of selected products from specific developing countries. AGOA offers duty free treatment for a broader range of products than is available under the GSP program. The GSP program, however, excluded the following products from the extensive list of duty-free articles: textiles, apparel, watches, footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel, and certain electronic, steel and glass products as well as other products that are deemed import-sensitive.

AGOA provides three important benefits to eligible Sub-Saharan African exporters: First, it extends the duty-free treatment under the GSP program through September 30, 2008.

Secondly, AGOA eliminates most of the limitations of the GSP program for eligible sub-Saharan African countries. Thirdly, AGOA expands the product coverage of the GSP program but only for products from sub-Saharan Africa thus assuring the Sub-Saharan exporters and their American customers that the duty-free treatment will not lapse for sometime, AGOA Testimony by the President, Corporate Council on Africa, (June 2003).

The AGOA program gives Sub-Saharan African countries a competitive edge over suppliers from other countries with which the United States does not have a free trade agreement. AGOA also exempts eligible sub-Saharan African countries from normal GSP program limitations on value and percentage of trade in specific product, known as "competitive need limitations." Under these limitations, a GSP participant loses benefits for a certain product if imports of that product into the United States account for more than 50 percent of total U.S. imports of that product, or if imports reach a certain value ($90 million in 1999). This benefit will also contribute to a more secure long-term sourcing relationship between Sub-Saharan African exporters and the U.S. customers.

An AGOA Testimony by the President, Corporate Council on Africa, (June 2003) observes that while AGOA primarily focuses on preferential trade programs, it also includes a number of the complementary provisions: AGOA created a Presidential and Cabinet level U.S. Sub-Saharan Africa Trade and Economic Cooperation Forum that will institutionalize America's economic engagement with Africa, and secure cooperation through structured dialogue on all levels of government, the private sector and the non-governmental organizations.

The Office of the United States Trade Representative (October 2000) reported that AGOA urges the Congress and the President to work together with the international community to make bilateral and multilateral debt relief available to those countries most in need of it. In addition, AGOA directs the U.S. Overseas Private Investment Corporation to increase loans, guarantees, and insurance that support projects in sub-Saharan Africa, including those undertaken by women entrepreneurs and those that maximize employment opportunities for poor individuals. The United States Export-Import Bank activities in sub-Saharan Africa will also be expanded. The intended impact of these provisions is to provide greater certainty to U.S. exporters and investors of support in their initiatives in sub-Saharan Africa.

The U.S. Agency for International Development, (2000) in their AGOA Implementation Guide, indicates that the Act directs the United States to provide technical assistance to companies and governments in Sub-Saharan Africa. This assistance will be used, for example, to liberalize trade and promote exports, facilitate the integration of Sub-Saharan African countries into the World Trade Organization, and promote regulatory and fiscal reforms.

2.8 Overview of Beneficiary Countries

Sub-Saharan Africa consists of some 48 countries. One common characteristic of these countries is that they are among the poorest countries in the world. Among the 38 countries listed as least developed in the world, 28 are Sub-Saharan African countries.

According to Feldman (2001), Sub-Saharan Africa's share of world trade continues to decline increasing Africa's marginalization from the global economy and excluding the continent from the growing world trade. In the last two decades, the volume of world trade has tripled while Sub-Saharan Africa's trade has grown less than 10%. As a result, Africa's share of world trade has fallen from just under 4% to less than 1.5%.

At present only a small number of countries receive substantial benefits and Least Developed Countries (LDCs) that do not receive preferences for clothing have yet to see the impact of AGOA on their overall exports. However, the benefits from exporting clothing under AGOA appear fragile in the face of the removal of quotas in the United States on major suppliers, such as China, at the end of 2004, and the planned removal of the liberal rules of origin that allow for the global sourcing of fabrics from least-cost locations under WTO.

Brenton and Ikezuki (2004) argue that the effective inclusion of textile products and a number of high-duty agricultural products would help broaden the range of opportunities for African exporters in the U.S. market. Nevertheless it is important that the opportunities created by AGOA are integrated into a broader framework for promoting trade and that it be recognized that if the opportunities offered by more open trade are to be exploited there must be concerted efforts to improve the environment for investment in countries covered by AGOA.

Mushita (2001) argues that the conditions of the Act are rather harsh from an African perspective and ultimately placing the qualifying countries at a disadvantage. He further notes that conforming to some of the prerequisites of the Act entails being submissive to the additional US conditionalities over and above those stipulated through the WTO and other international trade agreements.

Other critiques of the Act note that expanding AGOA's application to African agriculture would have a significant impact on reducing hunger and poverty and, therefore, on improving overall conditions in Sub-Saharan Africa. According to the AGOA Testimony by the President, Corporate Council for Africa (2003), one third of Africa's population is undernourished and nearly half lives on less than $1 a day. Most of the poor live in rural areas and depend largely on agriculture which accounts for 35 percent of Sub Saharan Africa's gross domestic product, 40 percent its exports, and 70 percent of its employment.

2.9 Government Incentives for the Manufacturing Sector

According to the Republic of Kenya (2002), National Development Plan, (2002-2008); the government intends to encourage manufacturing for export to the world market by establishing the Manufacture under Bond programme that is open to both local and foreign investors Republic of Kenya. The EPZ investors exporting to US fall under these categories. These Enterprises operating under the programme are offered incentives such as: exemption from duty and VAT on imported raw materials and other imported inputs; and, 100 per cent investment allowance on plant, machinery, equipment and buildings.

Bonded manufacturing enterprises can be licensed to operate within a 30 km radius of a Customs Office. This programme is facilitated by the Investment Promotion Centre and administered by the Kenya Revenue Authority (GOK, 2003).

2.10 Trade Liberalization and Export Promotion Within EPZs

Trade liberalization consists of the removal of import controls and tariff reduction. McCormick and Kinyanjui (2001) have observed that liberalization has had both negative and positive implications for the micro and small garment producers in Nairobi. This has been largely the case for other sectors of the economy. The negative effects are seen in the light of the competition and low demand in the product market occasioned by the influx of both new and old clothing. The positive effects are associated with the ease of access to foreign product markets and raw materials.

2.10.1 Opportunities Created by Trade Liberalization

Trade liberalization has been associated with incentives for both export and import trade. This has been perhaps the case with the removal and reduction of tariff and non-tariff barriers as well as relaxed regulatory licensing procedure of cross border and international trade. One outcome of trade liberalization was the opening up of export opportunities. However, McCormick, Kimuyu and Kinyanjui, (2002) have noted that the positive benefits of trade liberalization can easily be outweighed by the negative impact of rent-seeking, corruption and official harassment of business especially the small ones.

Other export opportunities witnessed in the era of trade liberalization include Africa Growth and Opportunity Act (AGOA), and the Common Market for Eastern and Southern Africa (COMESA). Under the AGOA Act (18th May, 2000) for instance, African and Kenyan garment firms can access the United States apparel market duty free.

2.10.2 Constraints of Trade Liberalization

In the recent past, the EPZ sector in Kenya has been faced with low and weak demand for locally produced goods. According to McCormick, et al (2002), domestic demand for local EPZ products has declined in a trend that has been accompanied by the collapse of large firms and stagnation of small ones. Njenga (1997), McCormick et al (2001), and (1997) McCormick (1997), McCormick and Ongile (1993), Odero, (1997), Otieno (1999) have all attribute the decline to the falling purchasing power of consumers and competition from imported new and old products.

McCormick and Ongile (1996) and Rotich (1993) have also cited increased competition and the subsequent low demand as among the critical factors that inhibit the growth of micro and small enterprises in the country. Their statistics indicate that in 1991/92, demand for new clothing dropped sharply with renewed competition from second hand clothes dealers. McCormick and Ongile (1996) have noted that following the legalization of importation of second hand clothes in the mid-1991 demand for new clothes dropped sharply.

According to Kimuyu and Wagacha (1996), after liberalization, EPZ enterprises have been trying to survive the onslaught from imported new and second hand goods, which have been eating away the domestic market share. New products in this case comprise complete apparels with foreign labels and price tags normally popular with the middle and high classes.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This Chapter outlines the research methodology used to meet the objectives of the study. The chapter highlights the design of the study, the population of interest, sampling design, data collection method and data analysis method.

3.2 Research Design

The survey design was used in this study. This allowed an in-depth description, assessment and analysis of the perception of CEOs on the benefits of AGOA on Kenyan exports to the American markets through the EPZs.

3.3 Population of Interest

The population of interest for this study was Chief Executive Officers of firms operating in the EPZs and the Chief Executive Officers of the Export Processing Zone Authority (EPZA), the Export Promotion Council (EPC) and the Kenya Investment Authority (KIA).

3.4 Sample Design

The sampling frame constituted the Chief Executive Officers of the EPZs, the EPZA, the KIA, and the EPC. The convenience sampling technique was used which involved the selection of respondents who were knowledgeable in the area of the study and were the key internal stakeholders who possess the required information about Kenyan Exports from the EPZ resulting from AGOA. In cases where the CEO's were not accessible the researcher studied one senior manager of the organization.

In terms of sample size, a total number of 42 respondents were targeted. They included 39 firms in the EPZ in Nairobi and Mombasa so as to establish the perception of the benefits of AGOA on the EPZs and the 3 Chief Executive Officers of the EPZA, KIA, and EPC, making a total of 42 respondents. The Table 1 below summarizes the number of respondents involved in this study.

TABLE 1: SUMMARY OF RESPONDENTS

Body	Title of respondent	Number	Percentage
Export Processing Zones (EPZs)	Chief Executive Officers	39	92.9%
Export Processing Zones Authority (EPZA)	Chief Executive Officer	1	2.4%
Kenya Investment Authority (KIA)	Chief Executive Officer	1	2.4%
Export Promotion Council	Chief Executive Officer	1	2.4%
Total Number Of Respondents		**42**	**100%**

Source: Researcher (2006)

3.5 Data Collection Method

Data was collected from primary sources through questionnaires distributed to the respondents. The questionnaires had both closed and open ended questions. The open-ended questions enabled the researcher to get further insights from the respondents through informal dialogues. Follow-up was done through a Research Assistant who assisted in administering of questionnaires. Secondary data was obtained to reinforce and supplement the primary data.

Such data was obtained from brochures and supplements in newspapers covering the area of study.

3.6 Data Analysis Method

Before processing the data, the completed questionnaires were coded for ease of analysis. They were then edited for completeness and standardized. The data was then entered into the Statistical Package for Social Scientists (SPSS) so as to easily carry out the analysis. Descriptive statistics were used to summarize and analyze the data. This included the use of frequencies, and percentages. The data was then presented in tables, graphs, and charts.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the data analysis under each of the research objectives. These are: the perception of CEOs on the benefits of AGOA to the EPZs, and the challenges faced by the EPZs in meeting the requirements of AGOA. The data is summarized using descriptive statistics and percentages and is presented in tables, graphs and in narrative.

4.2 Response Rate

A total 42 questionnaires were administered to respondents in the EPZs, EPZA, KIA and EPC and 35 were returned duly completed as shown in table 2 below. The survey therefore achieved a response rate of 83%, which was found adequate for purposes of the study.

TABLE 2: RESPONSE RATES

Body	Title of respondent	Number	Percentage
Export Processing Zones (EPZs)	Chief Executive Officers	39	92.9%
Export Processing Zones Authority (EPZA)	Chief Executive Officer	1	2.4%
Kenya Investment Authority (KIA)	Chief Executive Officer	1	2.4%
Export Promotion Council	Chief Executive Officer	1	2.4%
Total Number Of Respondents		**42**	**100%**

Source: Researcher (2006)

4.3 CEO's Perception on Role of AGOA in Influencing Business Establishment in EPZ

Tax incentives among them the duty free access to American markets under AGOA, regional markets such as COMESA and other forms of tax holidays were rated as important in making investment decisions in Kenya's EPZ with a mean rating score of 2.3 and a standard deviation of 0.5. This indicates that CEOs of EPZ firms perceive tax incentives as a major determinant of business set up at Kenya's EPZ. Duty free access to American markets has a modal rating of 2 (i.e. important) as illustrated in Table 3 below. Country characteristics including infrastructure, political stability, location of EPZs and availability of labour and raw materials are rated at "Somewhat Important" with a mean rating of 3.2 and a high standard deviation of 1.1 implying a high variation in responses and ratings by CEOs of EPZ firms. Facilitation factors in terms of government/institutional support to obtain licenses and permits to facilitate set up of business operations were rated as "Not Important" with a mean rating of 3.5 (which is approximately 4) and a moderate standard deviation of 0.7 as compared to Tax and Country Characteristics as shown in Table 3 below.

An interesting response and low rating was on Infrastructure in which the CEOs argued that it did not determine their entry to EPZ and if it could then, a number of firms would not have set up operations in Kenya. Perhaps this was a comment as a result of the degradation of Kenyan roads and the expensive electricity supply in Kenya.

TABLE 3: FACTORS INFLUENCING THE SETTING UP OF BUSINESS OPERATIONS IN EPZ

Factors	Ratings and Frequency of Responses					Statistic Analysis		
	Very Important (1)	*Important (2)*	*Somewhat Important (3)*	*Not Important (4)*	*Totally Unimportant (5)*	*Mode Rating*	*Mean Rating*	*Std dev. (s)*
Tax Incentives								
10 year Corporate Tax Holiday	8	15	7	2	-	2		
Perpetual exemption of duty on company inputs	2	5	19	5	1	3		
Perpetual exemption of VAT on company inputs	3	5	16	7	1	3		
10 year withholding tax holiday	6	15	9	2	-	2	2.3	0.5
Duty free access to American markets under AGOA	4	20	5	3		2		
Duty free access to regional markets e.g. COMESA	3	26	3	-	-	2		
Facilitation								
Rapid project approval and licensing	-	2	19	9	2	3	3.5	0.7
Assistance in obtaining work permits for all staff	-	3	9	17	3	4		
Country Characteristics								
Political stability	8	14	6	4	-	2		
Availability of raw materials	-	6	7	12	7	4		
Availability of labour	4	12	8	5	3	2	3.2	1.1
Infrastructure in the country	-	2	5	16	9	4		
Infrastructure in the zone	-	3	4	20	5	4		

Source: Researcher (2006)

From the above findings, it will be observed that the benefits of AGOA are viewed more from the extent to which the Act has enhanced exports to American markets, created enormous business opportunities for firms operating in the EPZ as well as the trickle down effect to the economy in terms of foreign exchange, employment creation and general economic growth.

4.4 Growth of EPZ Enterprise

The enactment of AGOA also led to growth in the number of operating enterprises in the Export processing zones. The number of firms grew from 24 after the enactment in 2000 to 66 in 2003 as seen Figure 2 below. This implies that enactment of the act also meant expansion of the operating enterprises so as to meet the requirements of the Act.

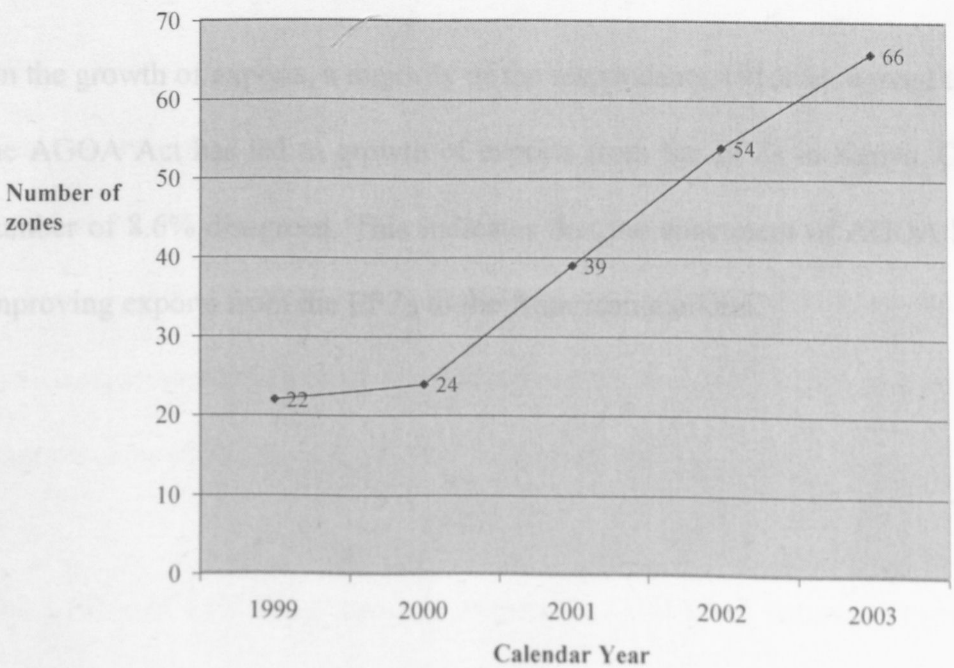

FIGURE 2: GROWTH OF ENTERPRISES

Source: EPZA (2004)

4.5 Role of AGOA in Exports Growth

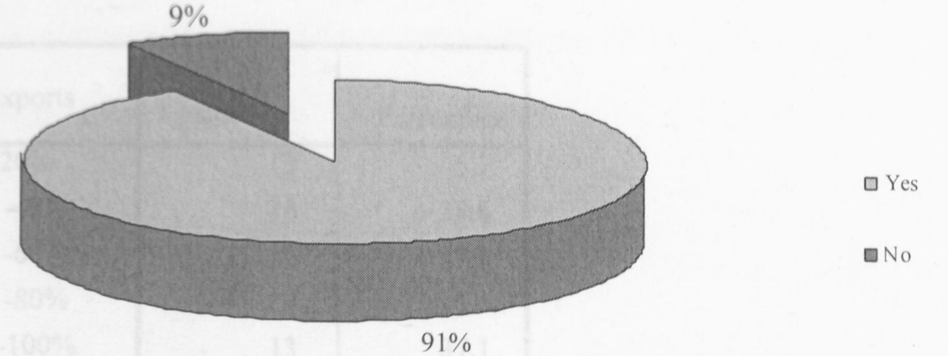

FIGURE 3: WHETHER AGOA LED TO THE GROWTH OF THE EXPORTS FROM EPZS IN KENYA

On the growth of exports, a majority of the respondents, (91.4%), agreed that the enactment of the AGOA Act has led to growth of exports from the EPZs in Kenya. Only an insignificant number of 8.6% disagreed. This indicates that the enactment of AGOA had played a role in improving exports from the EPZs to the American markets.

4.6 CEOs' View on Export Trends After Enactment of AGOA

TABLE 4: INCREASE (IN PERCENTAGE) OF EXPORTS

% Increase of Exports	Frequency	Percentage
0% -20%	2	5.7
21% -40%	10	28.6
41% -60%	6	17.1
61% -80%	4	11.4
81%-100%	13	37.1
Total	35	100.0

Source: Researcher (2006)

All the firms sampled in the survey, indicated that they had experienced an increase in exports after the enactment of AGOA. Most firms (51%) had an increase of between 5%-13%, and 30% had an increase ranging from between 15%to 20% whereas 19% had increases in exports of between 50% to 100% as is shown in Table 4 above. This shows that EPZ's exports increased tremendously with the enactment of the AGOA Act and therefore has a bright future compared to the other players in the industry.

The CEO's of EPZ firms strongly agree that AGOA has enhanced exports to the American markets, thereby increasing volume of business and revenues for their firms. This is in line with the available statistics which show increased volume of Exports to America.

And according to the Export Processing Zones Authority (EPZA), exports to the American markets under the AGOA and GSP provisions grew by 42.7% to stand at US $261 million in June 2005 and the EPZ's share was 77%. This further confirms that the enactment of AGOA in year 2000 had accelerated the quantities of apparels exported by firms in the EPZs. The trend over the years is as shown below in Figure 4 below.

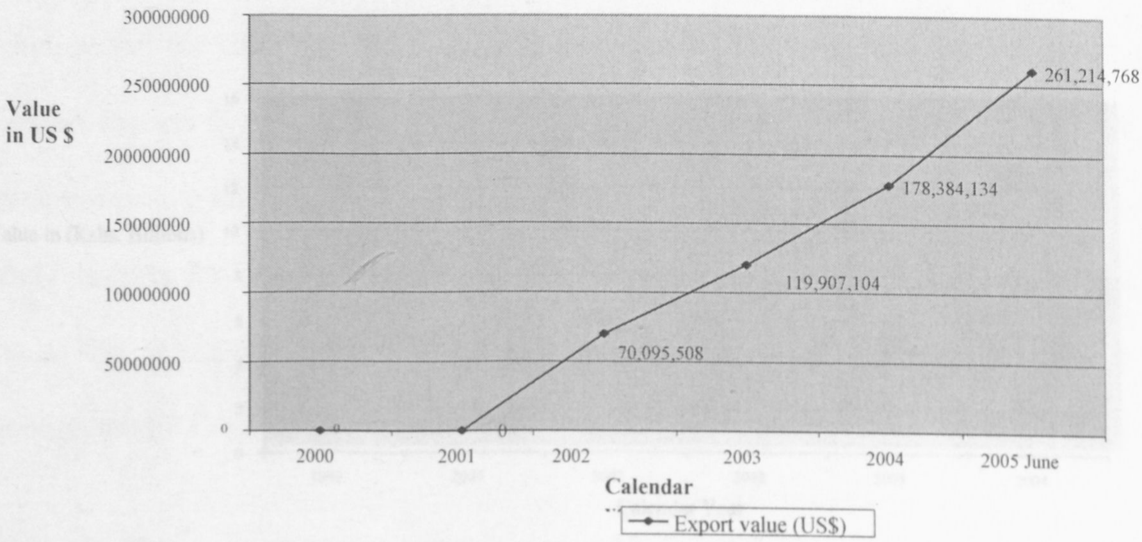

FIGURE 4: VALUE OF APPAREL EXPORTS AS AT JUNE 2005

Source: EPZA (2005)

4.7 New FDI to Kenya Since the Enactment of AGOA

According to the Kenya Investment Authority (KIA), there was an increase of foreign direct investments (FDI) into the country as a result of AGOA enactment. In the year 2004, the amount of FDI was USD 108m. This confirmed the EPZ CEO's view that AGOA provided a reason for establishing business in Kenya. The trend of investments over the years is as shown below in Figure 5 below. This implies that investments directly related to AGOA were made by investors so as to take advantage of the opportunities created by AGOA.

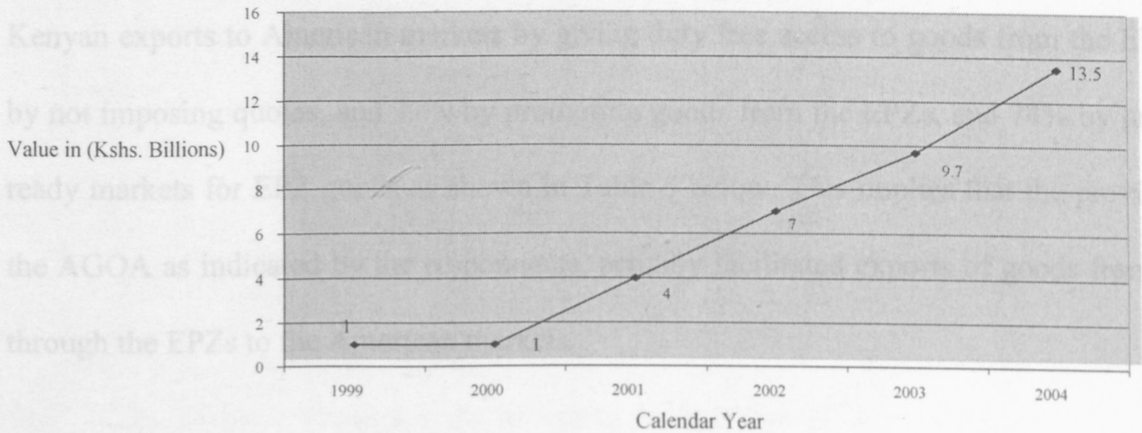

FIGURE 5: INVESTMENTS IN THE EPZS 1999-2004

Source: KIA (2004)

4.8 CEOs Views on Whether and How AGOA Facilitated Kenyan Exports to American Markets by the EPZs

All the 35 respondents (100%) indicated that AGOA facilitates exports to the American markets. From this response, it can be clearly observed that America is one of the key destination markets for the EPZ's products and the enactment of AGOA has facilitated exports to American markets.

Specifically the CEOs of EPZ firms, KIA, EPC and EPZA indicated four major ways through which AGOA facilitates exports from their firms to American markets as illustrated in Table 5 below. All the CEO's of the EPZ firms interviewed (100%) agreed that AGOA facilitated Kenyan exports to American markets by giving duty free access to goods from the EPZs and by not imposing quotas, and 77% by promoting goods from the EPZs, and 74% by providing ready markets for EPZ goods as shown in Table 5 below. This implies that the provisions of the AGOA as indicated by the respondents, actually facilitated exports of goods from Kenya through the EPZs to the American markets.

TABLE 5: HOW AGOA FACILITATES EXPORTS TO AMERICAN MARKETS

How AGOA facilitates exports to American Markets by Firms operating in the Export processing zones	Frequency	Percentage
Giving duty free access to goods from EPZ s	35	100
Promotion of goods from the EPZs	27	77
Providing ready market for EPZ goods	26	74
By not imposing quotas	35	100

n=35

Source: Researcher (2006)

4.9 The Enactment of AGOA and Increase in Employment

Out of the 32 EPZ firms surveyed, 93% (except 7%) affirmed that the enactment of AGOA had led to an increase in employment in their firms as shown in Figure 6 below. The CEO's acknowledge that AGOA enactment also had a positive impact in contributing to the provision of jobs to the locals. It is evident from this analysis that after the enactment of the act, most firms setting up operations in the zones created employment and even those that already existed also boosted their Labour force so as to meet the requirements of the Act. However the CEO's and proponents of the AGOA act expressed concern over job losses in the event that the provisions of AGOA are not extended beyond 2007.

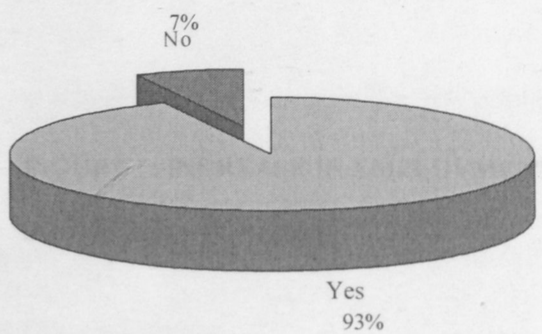

FIGURE 6: INCREASE IN EMPLOYMENT

Source: Researcher (2006)

The survey also revealed that 43% of the firms had an increase in employment after the enactment of AGOA of between 4%-10%, 41% increased employment by between 13%-20% and 16% of the firms increased their labour force by 75%-100% as indicated in Figure 7 below.

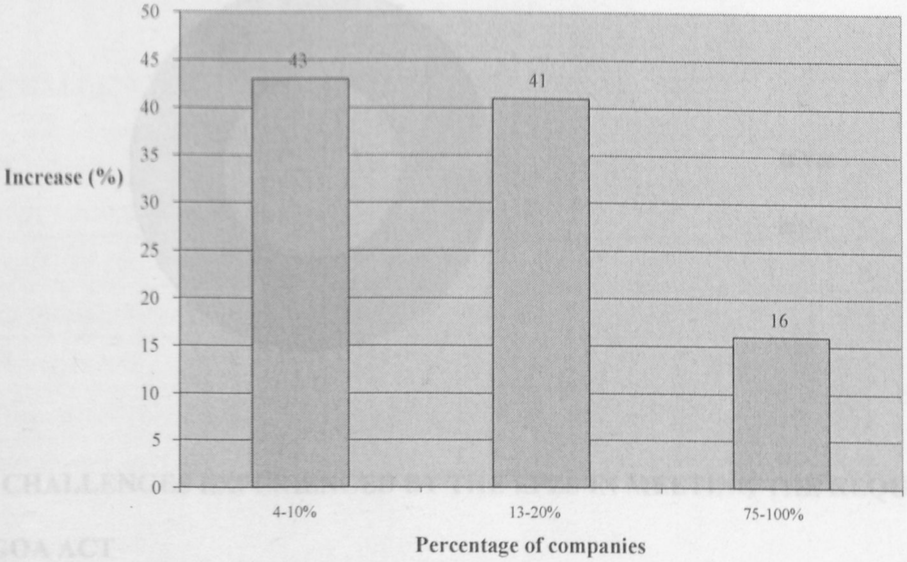

FIGURE 7: INCREASE IN EMPLOYMENT

Source: Researcher (2006)

4.10 Challenges Posed by AGOA to Firms in the EPZ

TABLE 6: CHALLENGES EXPERIENCED BY THE EPZS IN MEETING THE REQUIREMENTS OF THE AGOA ACT

Responses	Frequency	Percentage
Yes	31	88.6
No	4	11.4
Total	35	100.0

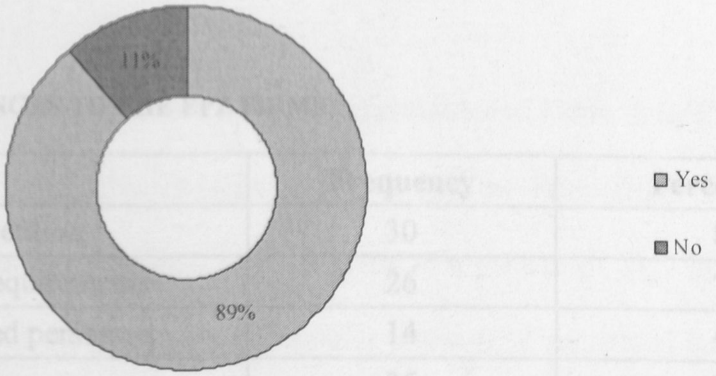

FIGURE 8: CHALLENGES EXPERIENCED BY THE EPZS IN MEETING THE REQUIREMENTS OF THE AGOA ACT

In an attempt to know whether there were challenges experienced by EPZs in meeting the requirements of the AGOA Act, the respondents indicated that there were challenges by a significant percentage of 88.6%. However, a minority of only 11.4% did not agree to this as shown in Table 6 and Figure 8 above.

4.10.1 Challenges as Expressed by CEOs of EPZ Firms

The EPZ firms sampled indicated that they faced various challenges in meeting their obligations under AGOA. Most of the firms (86%) indicated that they faced stiff international competition, 80% indicated that their workers have to work for long hours so as to meet the order requirements something which has led to strained industrial relations. The need to meet stringent quality requirements under AGOA also was a big challenge as indicated by 74% of the firms. Forty percent (40%) of the firms said that inadequate qualified personnel was also a challenge in meeting the AGOA requirements. It is therefore evident that though the AGOA had a positive benefits in the country, there are issues that limit the full exploitation of this opportunity by the investors in the EPZs as mentioned by the respondents in Table 7 below.

TABLE 7: CHALLENGES TO THE EPZ FIRMS

Challenge	Frequency	Percentage
International competition	30	86
Stringent quality requirements	26	74
Inadequate qualified personnel	14	40
Long working hours	25	71
Strained Industrial relations	28	80
Heavy investment in Technology	32	90

n=35

Source: Researcher (2006)

The EPZA noted that the EPZ companies face other challenges (in addition to the above), which affect their competitiveness. These include high cost of energy, poor transport infrastructure, and delay in clearing goods at the ports, low labour productivity, the high labour costs and inappropriate exchange rates which constitute disincentives to exports.

4.10.2 Challenges Posed by AGOA to the Kenya Government

According to the EPC, the opening up of the US market under the W.T.O has resulted in cheaper textiles and garments flooding the market from China and other cheaper producing countries leading to diminished orders for factories in the EPZs and therefore posing a challenge to the government of retaining the investors in the EPZs in the long ran. The KIA also indicated that AGOA's requirement of third country fabric usage by garment companies to end in September 2007 also presents challenges to the government. Kenya will become even more vulnerable to Asian competition if the US Congress does not extend an Ago provision allowing African textile producers to use fabrics made outside Africa and the US.

4.10.3. Challenge of Imbalanced Sectoral Investment and Growth in EPZ

The Kenya Investment Authority (KIA) revealed that the Foreign Direct Investment (FDI) were made in the garment/apparels sector leading to a growth of 51% in the sector in 2004, while other sectors of the economy represented in the EPZ registered an average growth of 5%-15% in FDI over the same period. It appears that most investors saw the opportunity mainly in the apparel sector and that is why most made investments in this sector. KIA in addition to the challenges presented to the EPZ firms affirmed that there is an imbalance in sectoral investment with more investment directed at Textile & Apparel sectors, leaving out Kenya's key sectors - Agricultural and Horticulture, which are cornerstones of the Kenyan Economy. Policy experts have been called upon to check the investment trends in EPZs.

CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the major findings of the study in relation to the objectives provided in Chapter One. It also discusses the recommendations, limitations of the study and suggestions for further research.

5.2 Summary of Findings

From the analysis, the researcher observed that the enactment of AGOA in 2000 had positive benefits on Kenyan exports to the American markets and on the growth of the EPZs though only in the garment sector. All firms operating in the EPZs in the garment/apparels sector reported growth in exports to America as a result of AGOA. The EPZA also affirmed that exports to the American Markets under AGOA grew by 42.7% in 2003 and the EPZs share was 77%.

The enactment of AGOA facilitated Kenyan exports to American markets by giving duty free access to goods from EPZs by not imposing quotas and by providing a ready market for the goods. This has led to more EPZ firms, who would like to take advantage of the AGOA Act and its provisions. There is a general view that the extension of AGOA and/or inclusion of more products will go a long way in enhancing trade with the USA and business operations in the EPZ.

The enactment also had led to the growth of number of firms operating in the EPZs from 24 in 2000 to 66 in 2003. Another benefit was also realized in the area of employment. With increased demand for products from the EPZs more people were employed by EPZs so as to meet the demand. 43. % of the firms indicated that they had increased their labour force by between 4% - 10%; 41% increased their labour force by 3% - 20% and 16% increased employment by between 75% - 100%. In 2002, the rate of employment increased by 111% though this declined to 44% in 2003.

The survey in addition established that the enactment of AGOA also resulted in new foreign direct investment (FDI) inflows in the Country. The KIA indicated the amount of FDI inflows were in the magnitude of USD 108 million in 2004. Most of the investments were made in the garment/apparel sector, which led to a growth of 51%.

As much as AGOA has facilitated the exports of goods from the EPZs to the American markets, the survey found out that the firms operating in the EPZ's face various challenges. The firms face stiff International competition from other countries that are also eligible under the AGOA act, so they have to strive to remain competitive. Firms exporting under AGOA have met stringent quality requirements as stipulated by the Act, which is quite challenging given the inadequate qualified personnel available locally. In order to fulfill the orders received, the firm's employees have to work for long hours an issue which has led to strained labor relations leading to various industrial strikes in the industry.

Apart from these challenges, the EPZ firms experience other problems as revealed by the EPZA. Some of these include heavy investment in production & communication technology, high cost of energy, poor transport infrastructure, and low labor productivity vis-à-vis high labor costs.

The government is faced with the challenge of retaining investors in the EPZ's in the wake of opening of the US market under W.T.O. Furthermore AGOA's requirement of third country fabric usage ending in September 2007 constitutes a challenge to the government; how the government addresses this challenge will determine if the firms manufacturing garments and operating in EPZs can continue to exploit the opportunities created by AGOA. Furthermore the government through its instrumentalities i.e. EPC, EPZA and KIA faces the challenge of exploring additional items for export to the US markets under AGOA.

5.3 Conclusions

From the survey, various conclusions are made. The enactment of AGOA has led to major benefits including growth of Kenyan exports to the American markets by firms operating in the EPZs though in the apparel sector only. AGOA enactment also led to growth of enterprises operating in the EPZ. This resulted to increase in employment for the locals in the EPZ's. The enactment of AGOA also led to the flow of new foreign direct investment (FDI) into the country mainly in the apparel sector, which grew by 51% in 2004. The EPZs are faced with various challenges, which affect their competitiveness. The Act also poses some challenges to the government in terms of retaining investors once the Act lapses. In addition, the limitations in product ranges under AGOA pose a challenge to the firms in terms of limiting the market opportunities.

5.4 Limitations of the Study

The main limitation of the study was that most firms mainly in Mombasa were new and therefore provided general statistics.

Another limitation experienced in the course of the study, was that most of the investors and management of the firms in the EPZs were foreigners and were a bit skeptical in providing any information. This not only resulted in delay in provision of data but also to non-return of a few questionnaires.

5.5 Suggestions for Further Research

Currently only the apparel sector seems to be thriving under the AGOA. Further research needs to be carried out to establish the challenges mainly facing the other sectors and come up with ways and means of having a diversified export industry under AGOA.

5.6 Recommendations for Policy and Practice

In the light of the above findings, the following policy recommendations have been made for the EPZ firms and the Kenya government among other stakeholders addressed in this study. Kenya should aim at diversifying its exports to the American markets under AGOA and in increasing product ranges to include agricultural and horticultural products. On the same note, the EPZ firms should aim at exploiting fully the benefits of AGOA and lobby for the extension of the Act.

The government should improve the competitiveness of the EPZ's by providing special concessions on energy costs; improving labor relations by setting and enforcing minimum wages and by improving the transport infrastructure and easing congestion at the ports. This can be done by lowering VAT for businesses within the local regions. The issues can perhaps be best addressed in public, private and in partnerships. The government should give local investors and textiles manufacturers better prices to avoid going for outside materials or outsourcing the supply from the Far East.

The Kenyan Government should lay effective and efficient strategies in order to be able to compete with other countries like India and China in the same export business by reviving collapsed textile mills through the injection of modern technology and management practices. The development of a cost effective cotton-textile sector that provides fabric inputs to the garment industry. Increasing the production efficiency of the workforce would also be helpful along with improving the skill level of workers by establishing training institutions.

As Kenya moves to take advantage of AGOA, it must do so in light of its overall development agenda, and it must do so with a well-defined AGOA strategy. The Government of Kenya has targeted the cotton-textile sector as a key industry in its industrialization efforts. The Government has also committed to the creation of 500,000 jobs annually. It appears to be more of an accident than design on the part of Government that the export garment industry has performed well under AGOA and has created 150,000 direct and indirect jobs and is creating a small degree of backward linkages into the cotton-textile sector.

In order to address the tension between labor and management in EPZs, a clear and precise collective bargaining agreement that defines the issues and corresponding remedies would help both labor and management understand their respective positions. However, on a more human relations level, management needs to empathize with the position of the workers in regards to minimum wage and the cost of living. Management can also educate workers by showing them how they fit into the global commodity chain for apparel. Such education would mitigate against workers mistaking the final garment price as their employer's selling price. Management must also understand the cultural context of their relationship with labor. In turn, labor must understand the industry's business environment and the constraints that it faces and their own role in the success or demise of the industry. A number of companies boast of their strong relationship with labor; apparel firms can learn from each other the best labor management practices. In addition to the labor unions, the EPZA can function as a third party in facilitating relations between labor and management.

In regards to AGOA as a whole, the Government of Kenya needs to develop a plan of action in order to take full advantage of this market opportunity. Actual trade takes place at the individual and company levels. Therefore, the Government of Kenya needs to design a program that addresses the skills, information and facilitating services needed by individuals and firms to export under AGOA. Such a program would pool together the resources of the Ministry of Trade and Industry, the Investment Promotion Centre, the Export Processing Zones Authority, the Export Promotion Council, Customs, the Commerce Department at the local universities, the Kenya Chamber of Commerce, financial institutions and business individuals currently exporting to the U.S. market. The program would cover such topics as the AGOA legislation and product eligibility, product development, market research, customs' export requirements, financing options, business linkage programs and strategic business planning. At the end of the program, individuals and firms would have developed their own business plan for entering the U.S. market under AGOA. As companies implement their market strategies, they would continue to have the support of the above institutions. Such a course of action is of special importance for small and medium companies with export potential.

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APPENDICES

Appendix I: List of Designated EPZ Sites (As at Nov. 2001)

COMPANY	LOCATION
Sameer Industrial Park	Nairobi
Dela Rue Security Print EPZ Limited	Nairobi
Tea Industrial Park	Nairobi
Embakasi Zone	Nairobi
Rafiki EPZ Limited	Nairobi
Josem Trust EPZ Limited	Nairobi
Indigo EPZ Limited	Nairobi
Unique Sun Zone	Nairobi
Athi River Public Zone	Athi River
Wildlife Works EPZ	Voi
Golden Sun EPZ Limited	Malindi
Equitea EPZ Limited	Kilifi
Birch Investments	Mombasa
East African Molasses	Mombasa

COMPANY	LOCATION
Coast Industrial Park	Mombasa
Kingorani EPZ Changamwe	Mombasa
Kwa Jomvu Zone	Mombasa
Kipevu Public Zone	Mombasa
East African Gas EPZ	Mombasa
Kapric Apparels EPZ limited	Mombasa
Emirates Agencies EPZ Limited	Mombasa
Miritini Industrial Park EPZ limited	Mombasa
Twin Leaves EPZ Limited	Mombasa

Source: (FKE, 2003)

Appendix II: EPZs Questionnaire

To be completed by the Chief Executive officers of the Export Processing Zones (EPZs)

Introduction

This questionnaire aims to collect information on the CEOs perception of the benefits of AGOA on Kenyan exports to American markets through the Export Processing Zones. Any information given is purely for academic purposes and will be treated confidentially. Please complete the questionnaire below.

SECTION A: BIO DATA

Designation of Respondent……………………………………………………………

Name of Organization……………………………………………………………………

Year of Establishment……………………………………………………………………

SECTION B

1. Has AGOA led to the growth of the exports from EPZs in Kenya? Please tick below.

   Yes ☐ No ☐

2. What is the increase (in percentage) of exports from your firm after AGOA? Please state……………………………………………………………

3. Does AGOA facilitate exports to the American markets from your firm? Please tick below ☐ ☐

   Yes No

4. If yes to question 3 above, please explain how the Act facilitates exports to American markets by your firm and others operating in the EPZs.

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5. Did the enactment of AGOA lead to growth of employment in your firm? Please tick below

Yes ☐ No ☐

6. If yes to question 5 above, what was the percentage increase in employment in your firm after the enactment of AGOA? Please state below.

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7. Are there any benefits presented by the provisions and terms of AGOA to your firm and others in the EPZ?

Yes ☐ No ☐

8. If yes to question 7 above, please list the benefits below?

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9. In your opinion which of the following statements is true on how AGOA facilitates exports to American markets from firms operating in the EPZs?

How AGOA Facilitates Exports	**True**	**False**
a) Giving duty free access to goods from EPZs		
b) Promotion of goods from the EPZs		
c) Providing ready market for EPZ goods		
d) By not imposing quotas		
e) Any other (please specify)......................		

10. Are there any challenges experienced by your firm in meeting the requirements of the Act?

Yes ☐ No ☐

11. If yes to question 9 above, please list the challenges below

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12. How would you rate the following factors in making your decision to invest in Kenya's EPZ? (Tick the appropriate response).

KEY

1. Very important
2. Important
3. Somewhat important
4. Not important
5. Totally unimportant

TAX INCENTIVES

		1	2	3	4	5
I.	10 year Corporate Tax Holiday	☐	☐	☐	☐	☐
II.	Perpetual exemption of duty on company inputs	☐	☐	☐	☐	☐
III.	Perpetual exemption of VAT on company inputs	☐	☐	☐	☐	☐
IV.	10 year withholding tax holiday	☐	☐	☐	☐	☐
V.	Duty free access to American markets under AGOA	☐	☐	☐	☐	☐
VI.	Duty free access to regional markets e.g. COMESA	☐	☐	☐	☐	☐

FACILITATION

VII. Rapid project approval and licensing ☐ ☐ ☐ ☐ ☐

VIII. Assistance in obtaining work permits for all staff ☐ ☐ ☐ ☐ ☐

COUNTRY CHARACTERISTICS

IX. Political stability ☐ ☐ ☐ ☐ ☐

X. Availability of raw materials ☐ ☐ ☐ ☐ ☐

XI. Availability of labour ☐ ☐ ☐ ☐ ☐

XII. Infrastructure in the country ☐ ☐ ☐ ☐ ☐

XIII. Infrastructure in the zone ☐ ☐ ☐ ☐ ☐

XIV. Security situation of the country ☐ ☐ ☐ ☐ ☐

XV. Location of EPZ ☐ ☐ ☐ ☐ ☐

13. What other factors would be important in your decision to invest in EPZs in Kenya?

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14. On a scale of 1-5 with (1 being the least and 5 the most important), how would you rank the following incentives in order of their importance to you as relates to your decision to invest in Kenya.

I. 10 Year Corporate Tax Holiday ☐

II. Perpetual exemption of duty on company inputs ☐

III. Perpetual exemption of VAT on company inputs ☐

IV. 10 Year withholding tax holiday ☐

V. Rapid project approval and licensing ☐
VI. Duty free access to American markets under AGOA ☐
VII. Duty free access to regional markets e.g. COMESA ☐
VIII. Assistance given in obtaining work permits for all staff ☐
IX. Political stability ☐
X. Availability of raw materials ☐
XI. Availability of labour ☐
XII. Infrastructure in the country ☐
XIII. Infrastructure in the zone ☐
XIV. Security situation of the country ☐
XV. Location of EPZ ☐

THANK YOU

Appendix III: EPZA Questionnaire

To be completed by the Chief Executive Officer of the Export Processing Zones Authority (EPZA)

Introduction

This questionnaire aims to collect information on the CEOs perception of the benefits of AGOA on Kenyan exports to American markets through the Export Processing Zones. Any information given is purely for academic purposes and will be treated confidentially. Please complete the questionnaire below.

SECTION A

Designation of Respondent……………………………………………………………

Year of Establishment………………………………………………………………………

SECTION B

1. Has AGOA led to the growth of the EPZs in Kenya? Please tick below.

   Yes ☐ No ☐

2. What was the number of the EPZs in Kenya before the enactment of AGOA? Please state below

   ……………………………………………………………………………………………

3. What is the number of EPZs in Kenya after the enactment of AGOA? Please state below

   ……………………………………………………………………………………………

4. What is the increase (in percentage) of exports from EPZs after AGOA? Please state below………………………………………………………………

5. Does AGOA facilitate exports to the American markets by firms in the EPZs? Please tick below.

Yes ☐ No ☐

6. In your opinion which of the following statements is true on how AGOA facilitates exports to American markets from firms operating in the EPZs?

How AGOA facilitates Exports	**True**	**False**
a) Giving duty free access to goods from EPZs		
b) Promotion of goods from the EPZs		
c) Providing ready market for EPZ goods		
d) By not imposing quotas		
e) Any other (please specify)……………………		

7. Did the enactment of AGOA lead to growth of employment in the EPZs? Please tick below

Yes ☐ No ☐

8. If yes to question 6 above, what was the percentage increase in employment after the enactment of AGOA? Please state below.

……………………………………………………………………………………………

9. Are there any challenges experienced by the EPZs in meeting the requirements of the act?

Yes ☐ No ☐

10. If yes to question 8 above, what are these challenges? Please list below.

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THANK YOU

Appendix IV: EPC Questionnaire

To be completed by the Chief Executive of the Export Promotion Council (EPC)

Introduction

This questionnaire aims to collect information on the CEOs perception of the benefits of AGOA on Kenyan exports to American markets through the Export Processing Zones. Any information given is purely for academic purposes and will be treated confidentially. Please complete the questionnaire below.

SECTION A: BIO DATA

Designation of Respondent……………………………………………………………

Year of Establishment……………………………………………………………………

SECTION B

1. Has the enactment of AGOA improved access to American markets?

   Yes ☐ No ☐

2. Has the enactment of AGOA led to growth of Kenyan exports to the American markets? Please tick below.

   Yes ☐ No ☐

3. What was the value of exports (in USD) in the designated goods between America and Kenya before the implementation of AGOA? Please indicate below

   ……………………………………………………………………………………………

4. What is the increase (percentage) of trade as a result of AGOA? Please indicate below.

   …………………………%

5. What are the specific sectors that have grown as a result of AGOA? Please state below and indicate the percentage growth in the sectors.

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6. Has AGOA facilitated exports to the American markets by firms in the EPZs? Please tick below.

Yes ☐ No ☐

7. In your opinion which of the following statements is true on how AGOA facilitates exports to American markets from firms operating in the EPZs?

How AGOA facilitates Exports	True	False
a) Giving duty free access to goods from EPZs		
b) Promotion of goods from the EPZs		
c) Providing ready market for EPZ goods		
d) By not imposing quotas		
e) Any other (please specify).....................		

8. Are there any challenges presented by AGOA to the government? Please tick below

Yes ☐ No ☐

9. If yes to question 6 above, Please indicate the challenges below.

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THANK YOU

Appendix V: KIA Questionnaire

To be completed by the Chief Executive Officer of the Kenya Investment Authority (KIA)

<u>Introduction</u>

This questionnaire aims to collect information on the CEOs perception of the benefits of AGOA on Kenyan exports to American markets through the Export Processing Zones. Any information given is purely for academic purposes and will be treated confidentially. Please complete the questionnaire below.

<u>SECTION A: BIO DATA</u>

Designation of Respondent……………………………………………………………………

Year of Establishment…………………………………………………………………………

1. Has the enactment of AGOA improved access to American markets?

   Yes ☐ No ☐

2. Has there been any Foreign Direct investment (FDI) to the country as a result of AGOA? Please tick below.

   Yes ☐ No ☐

3. If yes to question 2 above, what is the amount of the FDI in USD? Please state below.

   ……………………………………USD

4. In what specific sectors were the investments made? Please state below and indicate the percentage of growth in investments (if possible).

   ……………………………………………………………………………………………

   ……………………………………………………………………………………………

   ……………………………………………………………………………………………

5. Has AGOA facilitated exports to the American markets by firms in the EPZs? Please tick below.

Yes ☐ No ☐

6. In your opinion which of the following statements is true on how AGOA facilitates exports to American markets from firms operating in the EPZs?

How AGOA facilitates Exports	True	False
f) Giving duty free access to goods from EPZs		
g) Promotion of goods from the EPZs		
h) Providing ready market for EPZ goods		
i) By not imposing quotas		
j) Any other (please specify)......................		

7. Are there any challenges presented by the AGOA Act to the Kenya government? Please tick below.

Yes ☐ No ☐

8. If yes to question 5 above, please list the challenges below.

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THANK YOU