An Assessment of the Africa Growth and Opportunity Act (AGOA) and its Implications for Namibia

Prepared by the Labour Resource and Research Institute (LaRRI) for the Namibia Trade and Poverty Programme

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Acronyms

AGOA	African Growth and Opportunity Act
ATC	Agreement on Textile and Clothing
BON	Bank of Namibia
CCS	Centre for Civil Society
GDP	Gross Domestic Product
LaRRI	Labour Resource and Research Institute
LFS	Labour Force Survey
MFA	Multi Fibre Agreement
MNC	Multinational Corporation
MTI	Ministry of Trade and Industry
NAFAU	Namibia Food and Allied Workers Union
NGMC	Namibia Garment Manufacture Company
NHIES	Namibia Household Income and Expenditure Survey
SADC	Southern African Development Community
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
T& C	Textiles & Clothing
WTO	World Trade Organisation
US	United States
USA	United States of America

Executive summary

The United States introduced the African Growth and Opportunity Act (AGOA) in 2000 with the intention of maximising trade between the US and sub-Saharan African (SSA) countries. Specifically, AGOA aimed at developing the textile industry in SSA countries as it has the potential to contribute positively to employment creation due to its labour intensiveness nature. Unlike other trade agreements that are bilateral, AGOA is a unilateral trade preference agreement decided upon by the United States and targeting SSA countries. AGOA accords the President of the United States the right to cease the status of a SSA country that does not meet the requirements set out in AGOA. Only eligible sub-Saharan African (SSA) countries that meet certain requirements outlined in the Act can benefit under AGOA. Under AGOA, certain goods from eligible SSA countries can enter the United States duty free and quota free.

The introduction of AGOA led to increased trade between the USA and the SSA countries. However, the increase in trade was not experienced at the same level in all SSA countries and did not affect all goods equally. Trade statistics show that countries that experienced substantial growth in trade included Nigeria, Angola and South Africa, Gabon and Chad. Furthermore, products dominating trade between United States and SSA countries are natural resources and primary products. Overall, petroleum products account for more the 90 per cent of all African exports to the United States. In other SSA countries, AGOA led to the development of textile industries. Thus countries like Swaziland, Lesotho and Malawi experienced a substantial growth in their textile industries. Despite the significant growth experienced by the above-mentioned countries, total exports to the US from African countries are still dominated by petroleum products.

In Namibia, products that dominate exports to the US are metals, minerals, textiles and apparel. The highest overall exports of US$ 238 219 million were recorded in 2004 and dropped significantly to US $129 557 million in 2005. The reduction in exports was also experienced in the textile industry in Namibia and in many SSA countries. For instance, many textile producing SSA countries experienced a decrease in their textile exports and subsequently company closures, which led to loss of thousands of jobs. In Namibia alone, about 1 600 jobs were lost when one of Ramatex's subsidiaries (Rhino Garments) closed down in 2005.

Namibia became a beneficiary country in 2001 and qualified for the 'special rule' provision on apparel articles which allows lesser developed SSA countries to source their raw materials from anywhere in the world. Only countries that had been classified as lesser-developed countries on the basis that their GDP per capita did not exceed $1500 could benefit from this provision. This provision is not permanent but has been extended to 2015. Under AGOA, Namibia stood to benefit in the following ways:

- Increased exports to the US due to free market access and absence of limitations on exports
- Increased employment opportunities through investment; and
- Creation of infrastructure in the textile and garment industry

Before, 2001, Namibia did not have a developed textile and apparel industry but this changed with the introduction of AGOA coupled with many government concessions, which largely influenced the Ramatex company decision to invest in Namibia. Ramatex is by far the largest textile factory in Namibia and was expected to create about 8 000 jobs, a reason which was used to justify the concessions offered to Ramatex. Following retrenchments in 2005 and 2006, there are currently only 3 600 Namibian workers employed at Ramatex. Despite having increased workers wages in 2006 following lengthy negotiations and a strike, Ramatex workers are still among the lowest paid industrial workers in Namibia. Furthermore, since its inception, labour relations have been tense at the company with the lack of wage increases as the main source of conflict.

This study revealed that there are internal and external challenges that face the success of AGOA in SSA countries. The internal challenges relate to the ability of companies to fully benefit under AGOA due to internal capacity constraints whilst external constraints are the end of the Multi Fibre Agreement (MFA) coupled with the attractions offered by China as an investment location.

In Namibia, we found that Ramatex is currently the only company that is exporting to the USA under AGOA and, thus, the only AGOA beneficiary in Namibia. Other exporters to the US indicated that AGOA had no relevance for their exports and thus did not affect their business.

There are many reasons why Ramatex is the only company benefiting under AGOA. Firstly, Ramatex is a big Multinational Corporation whose operations is fully integrated and has been in the business for a long time. Thus Ramatex has the equipment, manpower, already established business contacts and experience to meet the requirements and demands of big US retailers. Namibian textile manufacturers on the other hand operate on a small scale and do not have established business contacts in the US, equipment and manpower necessary to allow them to fully utilise the opportunities presented under AGOA. Another challenge that face Namibian textile and garment manufacturers is the costs involved in shipping products to the United States due to the lack of a direct shipment between Namibia and the US. Thus all exports to the US have to go through South Africa.

Having experienced these constraints, Namibian textile and garments manufacturers came up with an initiative to deal with the challenge by forming a company called the Namibia Garment and Market Company (NGMC). The NMGC was formed in June 2006 with the main aim of bringing together textile and garment manufacturers to assess possibilities for growth and promotion of the textile and clothing industry in Namibia. However, the NGMC had not yet started exporting to the US as they were still looking for proper facilities and equipment to be able to meet the requirements and demands of US retailers.

The end of the MFA at the beginning of 2005 had devastating effects on the textile industries in many SSA countries as mentioned earlier. These effects were acute as it was the introduction of the MFA that had led to the development of textile and clothing industries in many developing countries, which were not affected by quota restrictions. Thus the end of the MFA meant that quota or quantity restrictions that had been placed on certain products (mostly textile) from Asian countries were not longer applicable. In tandem to the end of the MFA, China became highly competitive by offering the opportunity for companies to significantly lower their production costs. Thus many textile companies closed their factories in SSA countries (who are beneficiaries of AGOA) and opened new ones in China and other Asian countries. Thus the success and impact of AGOA has been very limited due to the external (global) and internal challenges faced by local businesses.

Introduction

The study

The main aim of this study was to assess whether AGOA played a role in poverty reduction in Namibia. In this regard, two industries were identified which not only showed increased exports under AGOA but also plays a critical role in contributing to the country's GDP and employment creation. Thus the mining and textile industry were chosen as the main focus of the study. After identifying the industries, letters were sent to different mining companies and the Ministry of Mines and Energy to find out which companies export to the US under AGOA. The mining companies contacted were:

1. Okurusu mine
2. Rossing Uranium
3. Skorpion Zinc mine
4. Anglogold Ashanti
5. Namdeb Diamond Corporation

None of these companies export to the US under AGOA. Further investigation with the Ministry of Finance confirmed that currently no mining company is registered for export to the US market under AGOA.

To date, there are only three textile and clothing companies that are registered to export under AGOA. They are:

1. Ibenistein Weavers
2. Karakulia Weavers
3. Ramatex and its subsidiaries

However, only the Ramatex factory actually exports to the US under AGOA. Thus an analysis of the impact of AGOA on poverty reduction in Namibia currently has to focus exclusively on Ramatex.

The Sample

The sample consisted of key respondents who were identified on the basis of their involvement in trade or because we were referred to them by stakeholders during our inquiries. Thus the following organisations were contacted:

- Ministry of Trade and Industry
- Ministry of Finance
- Ministry of Fisheries and Marine Resources
- Ministry of Mines and Energy
- US Embassy in Namibia
- TransNamib Holdings
- Textile companies mentioned above
- Mining companies as indicated above
- Agriculture Trade Forum
- Namibia Garments Marketing Company

Interviews were conducted with representatives from the Ministry of Trade and Industry (Mr. Mesag Mulunga), Ramatex factory (Mr. B K Ong), Karakulia Weavers (Mr Dirk Harold and Jenny Carvill), Ibenstein Weavers (Ms Anne Ramdohr), Agriculture Trade Forum (Mr. Jurgen Hoffmann) and Namibia Garments Market Company (Ms Liesl Boois).

Challenges

The main challenge during the initial phase of the study was the lack of information regarding companies exporting to the US under AGOA. Inquiries made to the Ministry of Trade and Industry revealed that companies are not required to register with the ministry when exporting to the US under AGOA. The only information available is the list of products exported to the US under AGOA, which is captured by the National Planning Commission. Thus there is a lack of vital information, which should be captured to monitor the impact of AGOA. The information captured at the Ministry of Finance on the companies registered does not reflect all companies exporting to the US under AGOA as only those companies that require certificates (such as those in the textile and garment industry) need to be registered.

The real benefits of AGOA to Namibia cannot be sorely measured by export and employment figures alone. In addition, information on quality of jobs created, salaries and linkage to the local industries should be collected to allow for a holistic picture of the benefits of AGOA to Namibia. Regrettably, TransNamib did not agree to an interview, thus we could not ascertain the nature and extent of business the company obtained due to Ramatex's operations in Namibia.

Overall Trade between US and Sub-Saharan Africa

US - Sub-Saharan Africa trade profile[1]

The US –Africa trade profile shows that Africa's biggest trading partners are the US (44%), UK (17%), Germany (16%), France (15%), Japan (12%) and Italy (7%). Overall, trade between the U.S and Sub – Saharan African (SSA) continued to grow in 2005 as indicated in table 1. US exports to SSA are concentrated in a small number of countries such as South Africa (37%), Nigeria (15.7%) and Angola (9%). In 2005, US exports to SSA consisted of aircrafts, infrastructure related machinery, agriculture commodities and motor vehicles with the top three items being aircraft parts (12.9%), oil and gas field machinery and equipment (11.7%) and oil seeds and grains (8.8%).

Natural resources and primary products dominate Africa's exports to the US market (BON 2006) with oil dominating all exports, accounting for 79.8%. This is linked to the top five AGOA beneficiary countries, of which the majority are oil-producing countries such as Nigeria, Angola, Gabon, and Chad. Nigeria and S.A account for almost half (46.2%) of SSA's total imports to the US market. The overwhelming majority (92.3%) of AGOA imports consist of petroleum products.

Other beneficiary countries in SSA who are not oil producers are SA, Lesotho, Kenya, Madagascar and Swaziland, all having experienced substantial increases in exports after the introduction of AGOA and also having had significant textile industries. However, the end of the Multi-Fibre Agreement in 2005 had a negative impact in some of these countries as textile companies have shifted their operations to China leaving thousands of African workers without jobs (for example Lesotho, Kenya and Namibia). Thus current statistics might reveal that these countries are no longer among the top AGOA beneficiary countries in SSA (Jauch 2005).

Table 1: U.S Trade with Sub-Saharan Africa ($ Millions)

[1] See Diemond, J. 2006.

	2002	2003	2004	2005
U.S. Exports	6 026.1	6 870.9	8 438.5	10 314.7
U.S Imports	17 891.4	25 633.3	35.879.5	50 289.7

Source: U.S. Dept. of Commerce, Bureau of Census

Namibia’s socio-economic environment

Namibia is rated as a middle-income country with a GDP of 38.6 billion and a GDP per capita of N$ 9275 in 2005. Compared to other Sub- Saharan African countries, Namibia’s GDP is relatively higher. Namibia’s economy grew by 4.4 per cent between 2000 and 2004 and is expected to grow at 4.7 % in 2007. In 2006, Namibia experienced a GPD growth rate of 4.6 per cent, which is an increase of 0.2 per cent from the previous year (BON 2006). It is argued that this growth rate is mainly due to the strong performance of the primary industry, particularly the mining sector. Sectoral contribution to GDP shows that the tertiary industries contribute more than half (55.6%) to GDP, followed by primary (19.8%) and secondary industries (17.4%) (BON 2006).

Despite the fact that mining receives two thirds of foreign direct investment and has over the years contributed significantly to GDP, this is not translated into employment creation because of the capital-intensive nature of the industry. Between 1997 and 2000, more than 40 per cent of jobs were lost in the mining industry and currently the mining industry accounts for only 2 per cent of the employed persons (Ministry of Labour 2001, 2002 and 2006).

Namibia’s economy is heavily dependent on the South African economy as the majority of the imports come from there. Also, the Namibian dollar is linked to the South African Rand. The South African Rand is accepted as legal tender in Namibia whilst this status is not reciprocated to the Namibian dollar. Namibia is the fourth largest exporter of non-fuel minerals in sub-Saharan Africa and the fifth largest producer of Uranium in the world (www.agoa.info). In addition, Namibia exports mostly primary products such as diamonds, cooper, lead, uranium, beef, fish and karakul pelts and imports food, fuel and energy and capital goods. In 2004, Namibia recorded export earnings of around $1.6 billion and imports of about 2.3 billion. This shows that imports exceed exports in Namibia. The major trading partners are South Africa, Angola, Botswana, Germany, U.K and the U.S (www.state.gov).

Despite the high GDP and positive economic growth, the majority of the Namibian population live in poverty due to a high unemployment rate of about 36.7 per cent (67 % among youth of 15-19 years old) and a high inequality of income distribution of 0.6, which is still among the highest in the world (Ministry of Labour and Social Welfare2006 & NHIES 2003/04). The Latest Namibia Household Income and Expenditure Survey revealed that 28 per cent of households in Namibia are poor with 4 per cent living in severe poverty (NHIES 2003/04).

Economically active population

In 2004, 888,348 Namibians were 15 years or older and the labour force survey classified 493,448 (56%) of them as economically active. The bulk of those classified as economically inactive were students (41%), followed by 'home-makers' (25.3%), retired and old people (25.9%) and those affected by illness and disability (6.9%). There was a gender discrepancy, as males are dominant among economically active Namibians accounting for 63.7%, while most of the economically inactive Namibians (51.7%) were women (Ministry of Labour and Social Welfare 2006:3, 38).

Although the number of jobs in the agricultural sector has declined steadily over the years, it is still the largest sector in terms of employment in Namibia, accounting for 102,636 (or 26.6%) jobs in 2004 (see table 1). It is, however, important to point out that this figure included about 36,000 communal/subsistence farmers, 490 commercial agricultural employers and 5,765 'own account' self-employed agricultural workers. There were 42,620 farm workers on private farms and 2,034 workers on public farms (ibid: 53). Other important employment sectors were the public sector (19.6%) and especially the service sectors, which accounted for about 35% of all formal sector jobs. On the other hand, manufacturing has remained severely underdeveloped in Namibia and accounted for only 6% of employment (see table 2).

Overall, there were 86,161 employees in the public sector (including parastatals) and 194,516 in the private sector. The total number of employees thus stood at 280,677 in

2004, while there were 12,209 employers outside the agricultural sector and 37,441 'own account' self-employed workers (Ministry of Labour and Social Welfare 2006:53).

Table 2: Employment by sector (1988-2004)

Industry	***1988***		***1997***		***2004***	
	No.	**%**	**No.**	**%**	**No.**	**%**
Agriculture	*34,398 (commercial farms only)*	*18.6*	*146,899 (commercial & communal farms)*	*36.6*	*102,636*	*26.6*
Fishing	*1,673*	*0.9*	*6,771*	*1.7*	*12,720*	*3.3*
Mining & quarrying	10,062	5.4	6,592	1.6	7,563	2.0
Manufacturing	9,442	5.1	25,983	6.5	23,755	6.2
Electricity, gas & water supply	1,273	0.7	4,576	1.1	6,151	1.6
Construction	12,657	6.9	19,801	4.9	19,605	5.1
Wholesale & retail trade, repair of motor vehicles, hotels and restaurants	29,394	15.9	36,803	9.1	67,027	17.4
Transport, storage & communication	7,880	4.3	13,480	3.4	15,861	4.1
Finance, real estate and business services	4,325	2.3	28,061	6.8	16,956	4.4
Government service including administration, defence, education, health, social work and social security	38,098	20.6	56,974	14.2	75,863	19.6
Other community, social & personal services (including domestic work)	35,589	20.6	53,065	13.1	36,713	9.5
Other			2,135	0.6	479	0.1
TOTAL	184,791	100	401,203	100	385,329	100

Sources: Department of Economic Affairs 1988; Ministry of Labour 2001 and 2006.

Table 1 shows significant changes in employment patterns between 1988 and 2004. Overall, there was a shift away from the primary sector (such as agriculture and mining) towards the tertiary sector. The manufacturing industries remained fairly stagnant and insignificant in terms of employment, despite various government attempts to boost this sector. This presents the classical picture of a neo-colonial economy, characterised by a jump from the primary sector to tertiary industries without the foundation of a significant manufacturing sector as a basis for industrial development.

The importance of wages and salaries

About half of all Namibian households (47%) relied on ‘wages and salaries’ as their main source of income. In urban areas, this figure was as high as 74%. These figures indicate the critical importance that wages and salaries have for the survival of Namibian households. This is further emphasised by the fact that 68% of households in the country (82% in urban areas) lack a secondary source of income (Ministry of Labour and Social Welfare 2006:36-7).

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Employment and Unemployment

The Namibian government’s unemployment definition is based on three criteria, namely:

- being without work,
- being available for work, and
- seeking work.

The ‘strict definition’ of unemployment excludes from the ranks of the unemployed those individuals (15-65 years old) who are without jobs and available for work, but who are **not** actively seeking work. The ‘broad definition’ of unemployment on the other hand regards every person who is 15-65 years of age and without work but available for work as being unemployed, whether he/she is looking for work or not. The labour force survey of 2004 presented unemployment figures for both definitions as follows.

Unemployment in Namibia according to the ‘broad definition’ stood at 36.7%, whilst the ‘strict definition’ resulted in an unemployment rate of 21.9%. Using the ‘strict definition’ of unemployment in the context of the Namibian labour market is problematic. The criterion ‘actively seeking work’ for classifying the unemployed may not be accurate, as many unemployed people may have stopped looking for work, not because they do not want to work, but simply because they may be demoralised and have given up hope of finding a job. Others may not bother to seek work as they witness the fruitless efforts of their friends and relatives. Thus, the criterion ‘not seeking work’ may not be relevant in labour markets that are characterised by mass unemployment.

Table 3: Unemployment – broad definition (2004)

	Overall percentage	**Percentage among women**	**Percentage among men**
Nationally	36.7	43.4	30.3
Urban areas	29	33.8	24.4
Rural areas	44.7	53	36.5

Source: Ministry of Labour and Social Welfare 2006

Namibia's unemployment has regional, gender and age dimensions. In 2004, the rural unemployment rate (44.7%) was significantly higher than the rate in urban areas (29%). Unemployment also had a gender dimension, as significantly more women (43.4%) than men (30.3%) were unemployed. Young people were especially hard hit, as 65% of those between the ages of 15 and 19 and 57% of those aged 20 to 24 years were unemployed. On the other hand, the unemployment rate was significantly lower (16-21%) among those between 45 and 59 years of age (ibid: 3, 66 and 68).

Unemployment in Namibia is of a long-term nature, as 56% of the unemployed have been jobless for two years or more. Another 17% have been unemployed for 1-2 years while only 5.3% of the unemployed population has been without a job for less than three months. There was no significant difference between men and women regarding the duration of unemployment. However, there was a difference between urban and rural areas as the unemployed in the rural areas tended to be out of jobs for longer than those in the urban areas. Long-term unemployment (two years or more) in rural areas affected 60.5% of the unemployed compared to 49,8 % in urban areas (ibid: 69).

Before the Ramatex investment, Namibia did not have a developed textile and clothing industry. The industry consisted of very few manufacturers who produced on a small scale and did not contribute substantially to employment creation or to GDP. The Ramatex investment changed this scenario. To date, Ramatex's contribution to Namibia has only been accurately captured in terms of employment creation while its contribution to GDP is or has not been captured by the NPC or the Bank of Namibia. This makes it impossible to assess the importance of the textile industry (specifically Ramatex) to the Namibian economy based on its overall contribution to GDP.

This study makes the assumption that Ramatex, which the biggest textile manufacturer in Namibia invests very little in the local economy. This is based on the global trend that multinational corporations tend to have offshore accounts in countries other than where there are operating from. Payment for sales from the US retailers is made to the mother company's accounts or into offshore accounts and not to an account in Namibia. The transfers made to Namibia are based on the operational costs (such as wages, water and electricity etc) in the country. The main services used by Ramatex in Namibia are administrative services (export licenses etc), transport and packaging.

The African Growth and Opportunity Act (AGOA)

In 2000 the American president (Bill Clinton) introduced the African Growth and Opportunity Act (AGOA), a trade and investment policy, which grants duty-free access to many goods from sub-Saharan African countries. AGOA is an extension of the generalised system of preferences (GSP) programme, which emanates from the Trade Act of 1974. Under the GSP, some products of some countries can be imported into the US duty free (BON 2006). AGOA is meant to increase trade and investment opportunities and benefits for qualifying Sub-Saharan African countries with the United States of America. Specifically, AGOA intends to benefit the textile industry based on the premise that this industry has the potential to contribute positively to employment creation, as it is labour intensive and requires only modest investment (www.tradejusticeusa.org). AGOA is based on the assumption that the increased trade and investment opportunities will result in economic growth of the Sub-Saharan African countries, which will lead to poverty reduction in SSA countries. Also, the Act offers substantial incentives for African countries to liberalise their economies by following "free market" policies with the hope of creating a conducive environment for trade and investment.
Since its inception in 2000, AGOA has been amended three times in 2002, 2004 and 2006. The amendments were made to extend the preferential access for imports from beneficiary Sub-Saharan African countries. The amendment of 2004 extended this preferential access to 2015.

Eligibility requirements under AGOA[2]
AGOA grants the United States president power to designate a sub-Saharan African country the eligibility status if the president is satisfied that the following requirements have been met:
1. That the (sub-Saharan African) country has established, or is making continual progress toward establishing:

[2] Trade and Development Act of 2000 section 104

- A market based economy that protects private property rights, incorporates an open rules-based trading system, and minimises government interference in the economy through measures of price controls, subsidies, and government ownership of economic assets
- The rule of law, political pluralism, and the right to due process, a fair trial, and equal protection under the law;
- The elimination of barriers to the United States trade and investment
- Economic policies to reduce poverty, increase the availability of health care and educational opportunities, expand infrastructure, promote the development of private enterprise, and encourage the formation of capital markets through micro-credit or other programmes
- A system to combat corruption and bribery, such as signing and implementing the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; and
- Protection of internationally recognised worker rights, including the right of association, the right to organise and bargain collectively, a prohibition on the use of any form of forced or compulsory labour, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety

2. Does not engage in activities that undermine United States national security or foreign policy interests; and

3. Does not engage in gross violations of internationally recognised human rights or provide support for acts of international terrorism and cooperates in international efforts to eliminate human rights violations and terrorist activities.

Accordingly, AGOA gives the right to the US president to terminate the designation a sub-Saharan country that does not make continual progress in meeting the requirements stated above.

Preferential treatment under AGOA[2]

AGOA further accords the president the right to provide duty free treatment for any of the following articles:

[2] Trade and Development Act of 2000

- Wool yarn made of wool fibre and wool fabrics with an average fibre diameter of 18.5 micron or less, and
- Men's or boys' suits, suit type jackets, and trousers of worsted wool fabric, made of wool yarn having an average diameter of 18.5 micron or less

The duty- free provision is attached to two conditions such as import sensitivity of the articles and the origin of the articles. Duty free access is granted if the article is not regarded as "import sensitive" in the context of imports from sub-Saharan African countries. Secondly, the articles must meet the requirements stated in bullet 1 and 2, unless the rules of origin are adhered to. This simply means that for apparel, the yarns and fabrics should be sourced from one of the eligible sub-Saharan African countries or from the United States. Furthermore the cost or value of materials produced in the customs territory of the United States is included with respect to that article and the amount does not exceed 15 per cent of the appraised value of the article. The only countries that are exempted from this provision are countries that are classified as Least Developed countries in Sub Saharan Africa[3], which also qualify for the special rule provision. Besides having duty free access to the US market, certain articles from least developed countries do not have quantity limitations. Thus textile companies exporting to the US market from least developed countries enjoy duty free access and can export large numbers of certain articles to the US.

The preferential treatment on duty free and unlimited export quantities applies to the following textile and apparel products:

- The apparel articles must be assembled in one or more beneficiary sub-Saharan African countries and should be from fabrics or yarns wholly formed and cut in the US, as long as such fabrics are classified under heading 5602 or 5603 of the Harmonised Tariff Schedule of the United States.
- The apparel articles cut in one or more of the beneficiary sub-Sahara African countries from fabric and yarns wholly formed in the United States if such articles

[3] AGOA defines a "lesser developed beneficiary Sub Saharan country" as a country that had a per capita gross national product of less than $ 1500 per annum in 1998, as measured by the World Bank.

are assembled in one or more beneficiary sub-Saharan African countries with thread from the United States.

- Apparel articles wholly assembled in one or more beneficiary sub-Saharan African countries from fabric wholly formed in one or more of the beneficiary countries from yarn from the United States or one of the beneficiary Sub Saharan countries.

Under AGOA IV, the special rule for apparel applying to lesser-developed countries was extended to 30 September 2012, whilst duty- free and quota free treatment awarded to apparel articles from all other beneficiary sub Saharan African countries was extended to 2015.

Besides complying with the rules of origin, all importers who enjoy preferential treatment must comply with customs procedures and be able to produce a certificate of origin. This requires setting up of a proper and effective visa system to prevent illegal trans-shipment and use of counterfeit documentation as well as effective enforcement and verification procedures (www. Agoa.gov). Thus all shipments to the US should be accompanied by an original visa stamped on the original invoice and US customs are permitted to visit factories, producers and exporters for verification purposes. Furthermore, countries must produce monthly export data to allow for reconciliation with US import statistics (Brenton and Ikezuki 2004).

One of the main arguments used to support the relevance of rules of origin is that it encourages the development of integrated production, which will lead to the creation of more jobs in the beneficiary countries. Experience has shown that this has not materialised over the past 30 years (Ibid). Brenton & Ikezuki (2004) point out that using the argument of developing integration production to support the rules of origin is not valid especially with the changes in technology and liberalisation of global trade, which has resulted in the fragmentation of the production processes and increased outsourcing. According to Flatters (2002) the biggest challenge with regards to the rules of origin is that they are very demanding and difficult to meet, especially for smaller businesses wishing to take advantage of AGOA due to the underdevelopment of the "relevant parts of spinning, weaving and knitting sectors in SADC region (Namibia included). This discourages smaller and medium enterprises from fully utilising AGOA and becoming competitive on the global market, as they do not have access to cheap inputs thus raising their costs of production.

The argument of using rules of origin to stimulate the development of vertical integration processes in the textile industry can be plausible, especially when linked to employment creation and encouraging value addition to products. However, employment creation and value addition to products will not happen automatically. Positive discrimination should be applied for a number of years to allow the growth of the textile industries in countries where it is in its infant stage. However, this grace period should be accompanied by strategic policies and initiatives, which would allow the countries involved to develop their industries (Flatter 2002).

Duty free access can also be hindered by a surge in imports. In this regard, if and when there has been a surge in imports of a particular article that is being produced in the US and this surge has become a threat to the local industry, the US president has the right suspend the duty free access of imports (AGOA section 112, subparagraph B, section ii).

Namibia and AGOA

Namibia is one of the 37 Sub-Saharan African countries that have been granted the eligibility status to benefit from AGOA. Furthermore, Namibia qualified for the 'wearing Apparel' provision in Dec 2001 (BON 2006). Under AGOA II, Namibia qualified for the "special rule" which permits lesser developed AGOA beneficiary countries to use fabric manufactured anywhere in the world. This provision was extended to 30 September 2007 under AGOA III (www.state.gov/p/af/rt/agoa/2005/49702.htm) and further extended to 30 September 2012 under AGOA IV. The main reason why Namibia did not qualify for the special rule provision initially is because it did not qualify as a lesser developed country due to the fact that its per capita GDP exceeds US$ 1500 (Ibid). Thus the special rules provision applies to countries that have been classified as lesser-developed countries.

Products from Namibia that are currently being exported to the U.S include agricultural products, forest products, chemical and related products, energy related products, fisheries, textiles and apparel, minerals and metals, machinery, electronic products, and transportation equipment. However, the main products being exported to the US are energy-related products, minerals and base metals, and textiles and apparel. They experienced the highest increases since 2002 (BON 2006).

Namibian exports to the US

Namibian exports to the U.S reached the highest levels in 2004 at US$238 219 million, up from US$ 123 249 million during the previous year. Minerals and metals products experienced the highest exports in 2003 and substantial growth in 2004 but then experienced a sharp decline in 2005. This decrease in exports to the U.S can be partly attributed to poor performance experienced by the non-diamond mining industry and the stronger N$ (which is pegged to the SA Rand) to the US$. At the same time, these statistics should be treated with caution as our research revealed that there is no mining company, which is exporting to the US under AGOA. The decline in exports experienced by minerals and metals is in line with trends in export to the US, which experienced a significant decrease of 45.6 per cent. Thus the latest figures puts energy related products as the most significant exports valued at US $ 58 481 million, followed by textile and apparel products at US$ 33 259 million.

Table 4: Namibian exports to the US

Exports by Product economy	Value (1 000 US$)				
		2003	**2004**	**2005**	**2006**
Agricultural products		10 043	8 072	5 923	5317
Forest products		155	125	151	204
Chemical and related products		748	350	156	5
Energy related products		18 349	27 851	46 600	58481
Textiles and apparel		41 972	78 839	53 230	33259
Minerals and metals		49 639	1 17 922	20 370	15516
Machinery		8	77	4	58
Electronic products		12	57	58	202
Miscellaneous manufacturers		112	55	734	168
Special provisions		2 211	4 872	2 327	2439
All sectors		**123 249**	**238 219**	**129 557**	**115 650**

www.agoa.gov

Benefits and challenges

The rationale behind AGOA is to increase trade and investment opportunities between SSA countries and the US with the ultimate goal of reducing poverty. Thus it is imperative to assess whether this goal has been achieved, especially since the policy has been in place for more than five years. Of critical importance when assessing benefits is addressing two issues such as:

I. What are the benefits accrued to Namibia?
II. Who are the beneficiaries in Namibia?

The report by Bank of Namibia answers the first question regarding the benefits Namibia has achieved under AGOA. These include:

1. Increase in exports from Namibia to the US.

2. Under AGOA, Namibia was granted the lesser country status which allows it to benefit from the textile provision which allows companies to source their inputs from anywhere in the world.
3. Creation of over 6000 jobs as a direct result of the Ramatex investment
4. Creation of infrastructure, especially for the textile and garment industry (BON 2006: 1).

The potential benefits for Namibia from AGOA can be grouped under direct and indirect benefits. Indirect benefits include the opportunities presented by AGOA which can stimulate economic growth through increased foreign investment, leading to employment creation and ultimately resulting in poverty reduction. An example of an indirect benefit that Namibia accrued under AGOA is the Ramatex Investment. Ramatex came to Namibia to benefit from AGOA by having duty free and quota free access to the US market. The Namibian government on the other hand benefited indirectly through creation of jobs. Direct benefits that Namibia has accrued under AGOA are an increase in exports to the US.

This paper will attempt to answer the question of which the beneficiaries are in Namibia and how Namibia can benefit from AGOA. The Ramatex management, for instance, believes that "*AGOA benefits the buyers in America more than Ramatex because the buyers save on import duties. Thus for Ramatex, the only benefit is that under AGOA the buyers save on import duties, which allows them to make more orders, creating business for Ramatex"* (interview with Mr. Ong; 31 January 2007).

To date, only Ramatex is known to export to the US under AGOA, thus we can conclude that the textile and clothing industry has been the main beneficiary of AGOA thus far. Interviews with other textile companies who are registered to export to the US market under AGOA revealed that they had not utilised this opportunity because they faced various constraints and challenges. One particular challenge that the two companies had in common was that their production size was very small, a major handicap when it came to the company's ability to meet the stringent deadlines and big orders from the US retailers. One owner indicated that the order she had received for one month would normally take her four to five months to complete. "*Most large companies want to buy about 500 square meters of carpets, that is about 5 months production for small companies like ours which produces 100 square meter per month*" (Interview with Jenny Carvill). This sentiment was echoed by the Chief Trade Policy Analyst at the MTI who indicated that "*it is very difficult for Namibian SMEs or businesses operating as individuals to meet the orders which are in bulk from the US clients*" (Interview with Mr. Mulunga 15 February 2007). The only way Namibian businesses can meet these demands would be to team up and operate in groups by forming partnerships. Alternatively, small and individual businesses may combine their products and sell them in bulk (ibid). However, combining products and selling in bulk might not work as retailers place big quantities of standardised goods that have to be uniform and of the same quality. Thus individual producers may not necessarily be able to produce similar standardised products.

Namibian SMEs and businesses wishing to export to the US face a logistical challenge due to the lack of a direct shipment between Namibia and South Africa. Thus any exports to the US have to go through South Africa (Cape Town). This raises the costs of shipping and logistics, which might not be affordable for many businesses, especially SMEs.

Another challenge experienced by one of the textile companies (Karakulia weavers) was the difficulty in accessing and developing contacts with retailers in the US because the producers from Namibia have to establish their own contacts. [4]In some cases, the contacts can be established at the AGOA forums, which are held on an annual basis in the US or in one of the SSA countries. The problem with relying on the forums to establish the contacts with the buyers is that not all producers can afford to attend such meetings because they are expensive in terms of transport and accommodation costs involved. However, the Ministry of Trade and Industry may at times help to cover some of the costs to enable local businesses to attend the forums.

[4] Interview with Mr. Mulunga: Chief Trade Policy Analyst in the Ministry of Trade and Industry

The biggest challenge - especially for the textile industry - lies in the rules of origin. Interviews with the trade expert revealed that once the current status (Least Developed Country which allows Namibia to use raw materials from any other LDC or the US) will be reviewed, textile companies in Namibia will not be competitive any more as they will have to compete with other companies from Asia who have access to lower production inputs or raw material. Thus the Namibia Garment Marketing Company was set to address these challenges.

So far, AGOA has not benefited the local textile and clothing producers in Namibia but the formation of the Namibia Garment Marketing Company may reverse this trend and has the potential to create opportunities for Namibian textile and clothing manufacturers.

Local initiatives for textile and clothing industry: A case study of the Namibia Garment Marketing Company (NGMC)[5]

NGMC is a private company that was formed in June 2006 as an initiative of businesses in Namibia's textile and clothing industry. The main aim of the NGMC is to look at ways and means of how to grow, enhance and promote the Namibian textile and clothing industry by improving the capacity of the manufacturers. The NGMC is fully funded by the Ministry of Trade and Industry. This support is envisaged to continue until the NGCM can find alternative source of funding or sustain itself financially.

The NGCM operates on the basis of membership and currently has a membership of about 47 companies who do not pay membership fees. The requirements for becoming a member are registration with the Ministry of Trade and Industry and the registered company should be in operation. NGMC provides assistance in the form of equipment to its members. However, assistance is only provided to those struggling businesses, which show growth and commitment. It is in this regard that NMGC approached the Chinese embassy for support by providing assistance with inputs and specialised equipment. The response was positive, and the Chinese embassy may provide the requested equipment.

[5] This section is based on an interview conducted on the 27th February 2007 with Liesl Boois who is the Marketing Manager at NGCM.

Engagement with South African and US retailers

One of the biggest challenges that Namibian garment manufacturers face is that none of the shops sell locally produced clothes. Thus, the NGMC begun engaging and encouraging South African retailers operating in Namibia to buy locally produced clothes. A delegation from the NGMC travelled to South Africa to showcase some of the garments made by the Namibian garment manufacturers. This resulted in South African Retailers requesting the NGMC to do research on quality and fashion so that they could have an understanding of the product requirements and standard of their products. Despite having followed these procedures, no contract or memorandum of understanding has been signed between the South African retailers and Namibian garment manufacturers to date.

Furthermore, some representatives from the NGCM travelled to the US to attend the AGOA forum in 2006. They met a marketing company who agreed to market Namibian garment products. So far, the NGCM sent them samples, which was an introductory order consisting of sports wear such as soccer and basketball uniforms. Despite this initiative, Namibian garment manufacturers still do not export to the US under AGOA. This is mainly due to certain requirements and criteria that need to be met and which NGCM members are failing to meet. For example, when the US retailers place orders or decide to sub-contract companies to make their garments, they set up stringent deadlines or timelines for finishing orders. Furthermore, the type of equipment used is also important, as it should be able to produce a certain quality of clothes. The only way in which Namibian textile and clothes manufacturers can thus export to the US is by having specialised equipment, big infrastructure, large production lines (like Ramatex) and an exporting license from the Ministry of Finance.

Thus the only way in which Namibia textile and clothing manufacturers will be able to export to the US under AGOA is to look at forming partnerships so that they can increase their capacity, which will enable them to meet the big order from the US retailers. In this endeavour, NMGC also approached Ramatex to allow the manufacturers to use the premises, which used to be occupied by Rhino Garments. By the time of the interview (27 February 2007), Ramatex had not responded to this request.

Companies operating under AGOA in Namibia

Ramatex, Ibenstein Weavers and Karakulia Weavers are the only textile companies in Namibia that are registered to export to the United States under AGOA. However, Ibenstein Weavers and Karakulia Weavers are not actually exporting to the US under AGOA due to the constraints outlined above[6]. Instead, Karakulia Weavers and other textile companies involved in weaving handcraft had already established their own markets in various European countries such as Germany, the Netherlands, Switzerland, the UK and Finland

Ibenstein Weavers employs only 14 workers despite having been in operation since 1952 while Karakulia Weavers has a staff compliment of 39 workers. The biggest market for Karakulia Weavers is Germany but the company also exports to the US and other European countries through tourism projects like Penduka. Karakulia Weavers found it difficult to enter the US market, as a single business as having access did not guarantee establishment of contacts. Thus the only company that currently exports from Namibia to the US under AGOA is Ramatex.

The Ramatex Berhad Company[7]

Background on company

Ramatex Berhad is a textile manufacturing company that produces textile products such as yarn and garments. Ramatex Berhad was established in 1982 as GIMMILL industrial (M) Sdn, a small textile manufacturing plant in Batu Pahat, Malaysian. The Ma family who up to date still holds a majority share of 59 per cent started the company. The company produces mainly for export markets of the developed countries such as the United States. Ramatex is a significant player in the textile industry operating

[6] Telephonic interview with Anne Ramdohr (Director and Manager of Ibenstein Weavers)

[7] A detailed profile of the company can be found in Jauch and Shindondola 2003: 8 - 9, 2003.

manufacturing facilities in Malaysia, China, Singapore, Cambodia, Mauritius and Namibia.

Ramatex started operating in 2002 rather than September 2001 as initially intended. This delay was caused by two factors, namely the special rules provision and the visa requirements. Also, Namibia needed to put in place an effective visa system, which would prevent illegal shipment and use of counterfeit documentation.

In addition to enjoying the benefits under AGOA, Ramatex further benefited from the concessions under Namibia's EPZ programme. The EPZ Act was introduced in 1995, with the main purpose of attracting foreign investment to Namibia to boost the country's manufacturing industry. The incentives offered to companies operating under EPZ status are as follows:

- Corporate tax holidays (no taxes on profits of EPZ companies)
- Exemption from import duties on imported intermediate and capital goods
- Exemption from sales tax, stamp and transfer duties on goods and services required for EPZ activities
- Reduction in foreign exchange controls
- Guarantee of free repatriation of capital and profits
- Permission for EPZ investors to hold foreign currency accounts locally
- Access to streamlined regulatory service ("one stop shop")
- Provision of factory facilities for rental at economical rates
- Financial support for staff training (Jauch & Shindondola 2003)

Under the EPZ programme, the government hoped to create an estimated 25 000 jobs in the first 3 years. However, this ambition was not realised as shown in the study on EPZs by Endressen and Jauch (2000). This study revealed that by 1999, less than 400 jobs had been created under the EPZ programme.

In addition to the incentives granted to other EPZ companies, Ramatex was granted further incentives, which included the following[8]:

- A 99 –year lease of an industrial plot of 160 hectares at a minimal amount of N$1 per month
- Building of a new container terminal
- Subsidised electricity, water and sewage infrastructure
- Free wharfage provided by Namport
- New container terminal built by TransNamib

According to Winterfeldt (2007, forthcoming), the total sum of infrastructural support that Ramatex received amounted to 123.12 million[9].

Main customers

The company produces garments for some of the most popular and expensive brands and retailers such as Nike, Adidas, Puma, Otto Versand, Tagert, Walmart and Sears Woolworth (Jauch and Shindondola 2003).

Employment at Ramatex

Ramatex Berhad employs about 50 000 workers world-wide (Jauch & Shindondola 2003). In Namibia, it was expected that the company and its subsidiaries would create about 8000 jobs, thus making Ramatex the single biggest employer in the private sector. Recent employment figures revealed that Ramatex currently employs about 3 200 Namibian workers and 400 foreign workers, less than half the projected number of jobs. About 85 per cent of the Ramatex staff compliment is female, which is in line with global employment trends in the textile industry. The main reason why the company employed and still employs Asian workers in Namibia "*has to do with the fact the textile and garment industry is still very new in Namibia. Thus there was a need to bring*

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[8] Cited in Volker Winterfeldt (2007) Reclaiming the 21st Century? Ramatex Textiles Namibia: A case study in Southern African globalisation (forthcoming)

[9] This sum includes the N$ 17 million which was used by TransNamib to build a new terminal. It should be noted that this terminal does not cater for Ramatex only.

experienced workers who had previously worked in the garment industry to transfer the skills to the inexperienced workers. Also, the foreign workers were supposed to transfer work ethics to Namibian workers so that they can get an understanding of how the industry operates. There is no time period that has been set with regards to the company employing foreign workers. This depends on the demands or requirements of the buyer. For instance, if the buyer wants more difficult styling or urgent orders, the company has to use foreign workers who are more experienced to meet these demands and requirements. This will happen unless the Namibian workers can assure and prove to the company that they can meet these requirements and demands" (Interview with Mr. Ong, General Manager of Ramatex, 31 January 2007).

According to Mr. Ong, the number of expatriates was reduced at Ramatex because the company believes that the production line should be localized. This means that in the near future, only Namibians should be working in the production line once skills transfer has taken place. So far, there has been about 60 per cent of skills transfer from the expatriates to Namibian workers. What remains are the technical and styling aspects, which are regarded as difficult to acquire. Currently there are Namibians working in management positions, especially in HR, merchandising and supervisory positions (Interview with Mr. Ong, op.cit.).

Labour relations

From the onset, labour relations at the Ramatex factory have been characterised by unfair labour practices such as arbitrary dismissals, female workers forced to take pregnancy tests, poor working conditions characterised by long working hours and abuse by supervisors. All this resulted in very tense labour relations at the company. Since 2002, Ramatex made headlines with regards to violation of workers' rights and the provisions of the Labour Act of 1992. The following events exemplify these labour relations:

- Early 2002 - female employees were issued with letters instructing them to take pregnancy tests
- June 2002 – Several workers reported suffering from skin rashes and swollen hands and workers reported unhappiness with wages. Also, the Namibian Food

and Allied Workers Union (NAFAU) raises concerns about working conditions at Ramatex.

- July 2002 – Ramatex violates provisions of Social Security Act by not registering workers with the social security.
- August 2002 – Ramatex workers protests against employment contracts.
- April 2003 – Tensions over poor wages and conditions of services at Ramatex lead to work stoppage and lock out
- May 2003 – Ramatex suspends 416 workers without pay after identifying them as the masterminds of the attempted strike of April 2003[10]
- October 2006 – Workers engage in industrial strike due to company's refusal to increase the salaries and provide workers with benefits

In addition to unfair labour practices and the tense relations between the company and the workers, the relationship between the company and the union was also problematic. Despite having signed a recognition agreement with the Namibia Food and Allied Workers Union (NAFAU) in October 2002, the company did not respect the provisions and the conditions of the agreement. The union thus accused the company of negotiating in bad faith. The bad labour relations resulted in some of Ramatex's clients putting pressure on the company to resolve its labour relations.

Salaries and benefits

The issue of salaries and benefits has been one of the main concerns raised at Ramatex. In 2003, a study conducted by LaRRI revealed that workers at Ramatex earned basic wages of between between N$ 300 and N$ 600 per month without any benefits [11]. The low salaries earned by workers forced them to work overtime, which they believed was still underpaid. This resulted in workers being very unhappy with their salaries, which they said could not even cover their basic living expenses.

[10] Jauch & Shindondola 2003

[11] Trainees earn N$ 300 whilst those who have completed trained earned N$ 600 per month.

Another issue that was revealed by the LaRRI study of 2003 was that salaries of Namibian and expatriates doing the same job differed at Ramatex. This situation has not changed and the reason given by the general manager was that the Asian workers worked faster and had more experiences. Thus Asians were paid more than the Namibian workers. Also, expatriates are generally willing to work longer hours than Namibian workers who have to attend to family responsibilities. Expatriate workers on the other hand are always willing to work more hours as and when the need arises, depending on the orders from Ramatex' customer. Another reason, which seems very important for Ramatex is that "Namibians do not have the right attitude towards this industry, they only ask for 'more money, less job"(Interview with Mr. Ong, op.cit.). The previous Ramatex manager also shared this sentiment and categorized Namibian workers as being "lazy workers" (Jauch and Shindondola 2003).

Between 2002 and 2006, Ramatex did not increase the salaries of Namibian workers. One of the main reasons given by Ramatex for not increasing wages was that the workers were not very productive, and thus the company was not making profits. However, the company did not provide financial statements to validate this claim. It is against this background that we calculated Ramatex' total wage costs and compared them with the value of the company's exports into the US. These calculations are reflected in tables 5 and 6 and reveal that wages accounted for only 11-16% of Ramatex' export earnings. As Ramatex pays no taxes and pays only subsidised rates for water and electricity, it is hard to believe that the company's Namibian operations were running at a loss.

Table 5: Ramatex wage bill for 2004 compared to export earnings (in US$)

Category of workers	No of workers	***Export earnings: US$ 78 839 000***	Annual Wages (per worker)	Total

Namibian workers	5 400		90 x 12 = 1 080	5 832 000
Asian workers	800		300 x 12= 3 600	2 880 000
Total	6 200			8 712 000
Wage as % of export earnings				**11.05%**

Table 6: Ramatex wage bill for 2006 compared to export earnings (in US$)

Workers	No of workers	***Export earnings: US$ 33 259 000***	Annual Wages (per worker)	Total
Namibian workers	3 400		100 x 12 + 1 200	4 080 000
Asian workers	400		300 x 12= 3 600	1 440 000
Total	3 800			5 520 000
Wage as % of export earnings				**16,6 %**

Despite the low salaries received by workers, negotiations between the company and Namibia Food and Allied Workers Union (NAFAU) did not resolve this issue. During the last wage negotiations in 2006, Ramatex offered an increase of 10 cents, which was later raised to 15 cents an hour. The workers and the union refused the offer and went on a strike in October 2006. This resulted in the company agreeing to a more substantial increase in salaries and benefits. As from October 2006, basic wages were increased to N$ 4.10 per hour with the following benefits:

- Housing allowance – N$ 150 per month
- Transport – N$ 100 per month (This is below the current minimum taxi fare costs)[12] Pension – Contribution of 5 per cent from employer and workers
- Medical aid – Optional with the employer paying 70 percent with the worker 30 percent of the monthly contribution.

[12] Current taxi fares are N$ 6.50 per trip, thus a trip to and from work costs 13 in a day. When this is calculated with 22 days in a month it amounts to N$ 286.

The basic minimum wage currently earned by Ramatex workers is approximately N$ 720 per month[13], which increases to N$ 970 when the housing and transport allowance is included. Despite these increases, Ramatex' wages still fall below the average minimum wage of other industries[14] with the lowest being N$ 1164 and the highest N$ 1946 as indicated in table 7 (LaRRI 2006).

Table 7: Monthly minimum wages in 2004-05 by industry

	2004 (N$)	**2005 (N$)**	**Nominal wage increase %**	**Real wage increase %**
Fishing	1256	1313	4.6	2.3
Community, social and personal services	1684	1786	8.3	6
Construction	1412	1498	6.1	3.8
Manufacturing	1381	1452	5.2	2.9
Mining & quarrying	1806	1946	7.8	5.5
Transport & storage	1676	1887	12.6	10.3
Wholesale and retail trade	1067	1164	9.1	6.8
Average	**1472**	**1583**	**7.6**	**5.3**

Source: LaRRI 2006

Ramatex' future in Namibia

The recent developments in the global textile and clothing industry, particularly the end of the MFA, had a visible impact on textile and clothing companies in Africa. Many companies relocated to China, which has competitive advantage due to its low operation costs and the devalued currency. Ramatex already closed one of its subsidiaries in Namibia in 2005 and Jauch (2006) argues that this closure was directly linked to the end of the MFA and Ramatex's plans to relocate to China. He thus questions Ramatex' claims that the closure was triggered by a loss of orders from the company's clients in the US.

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[13] This amount is based on an hourly rate of N$ 4.10 x 8 hours x 22 working days.

[14] The industries are Agriculture, Community, social and personal services, Construction, Manufacturing, Mining and quarrying, Transport and storage and wholesale and retail trade (LaRRI 2006).

The interview with Ramatex management revealed that Ramatex intends to continue production in Namibia for as long as "business is good". The major factors that will contribute to Ramatex's continued investment in Namibia are low operation costs, high level of efficiency and improved labour relations. In the words of the general manager: *"As long as operation costs are low and efficiency is there, then the company will stay. Thus as long as business is performing well and the customers are happy, there is no reason to re-locate the business or to shut it down. Other factors like improved labour relations (relationship of union and company) will also encourage the company to continue operations. The improved labour relations are very important as it influences the buyers (customers) decision to continue buying from Ramatex or not. Thus if the buyers stop buying, then the company will be forced to shut sown due to loss of business from its buyers... Without business, the company has to close" (Interview with Mr. Ong, op.cit.).*

According to the Ramatex general manager, the company had accumulated losses of around US$26.3 million as at 31 December 2006. However, this claim could not be validated, as financial statements were not made available. Even the Ramatex website does not provide information on the company's' financial reports to validate this claim. As mentioned before, the figures in table 3 and 4 suggest that it is unlikely that Ramatex operates at a loss in Namibia.

Although AGOA was initially the main reason why Ramatex opened a production plant in sub-Saharan Africa, AGOA seems to be of little relevance when it comes to Ramatex' decision to continue with its operation in Namibia today. According to the general manager "*AGOA is not very important for Ramatex because if AGOA comes to an end, Ramatex will still continue to operate in Namibia"*(Interview with Mr. Lin, op.cit.). The most important factor that influences the company's decision is the demand that the company receives from its buyers in the US. Thus one can conclude that the factors that influences Ramatex's future in Namibia are pure business principles such as profitability. Issues such as poverty reduction or commitment to the development agenda of the host country are of no concern.

Cost- benefit analysis of Ramatex in Namibia

Ramatex has been the main beneficiary of AGOA in Namibia. In this section, we examine if and how Namibia has benefited from Ramatex' presence, particularly in light of the large amounts of public funds which government spent to attract and keep Ramatex in Namibia. The company enjoys many concessions under the EPZ regime and infrastructural support in access of 120 million. The Namibian government in the belief that the Ramatex investment will result in the creation of 8000 jobs and will also have a positive spillover effect for the Namibian economy incurred this cost. Furthermore, the Namibian government hoped that the new textile industry that Ramatex brought to Namibia would stay and expand in the years to come (Jauch & Shindondola 2003: 38).

The calculation by Jauch & Shindondola on costs incurred by government revealed that using an average wage of N$ 500 per month with 7000 workers, the financial support that Ramatex received from government equals the salaries of all workers for 34 months. They further argued that this was a "big investment, which can only be justified if Ramatex 's operations in Namibia can lead to long-term sustainable jobs of decent quality" (ibid: 39). In addition, the investment could only be justified if there was a systematic skills transfer, which would enable Namibians to run and manage textile companies and economic spill over to the SME industry by creating linkages. However, the nature of employment contracts and working conditions of Ramatex workers cannot qualify as "decent work". They are characterised by low wages, long working hours, lack of benefits lack of job security due to arbitrary unfair dismissals. The salaries of Ramatex workers are still below the minimum wages paid in most other industries and thus workers are trapped in poverty. Thus it can be argued that Ramatex contributed to an increase in "working poor", i.e. workers in full time employment but unable to meet their basic needs.

Another issue that warrants attention is whether the Ramatex investment is of a long-term nature and sustainable. Experiences in various countries have shown that textile and clothing companies are highly mobile ("footloose" - which means that companies can easily shift production between different locations). Companies relocate production in search of optimal conditions for profit maximisation (Endressen & Bergene 2006). The scale and speed of relocation has increased in recent years and in the textile and garment industries, the processes have been influenced by the changing international conditions such as the end of the MFA, AGOA and the Chinese attraction. Furthermore, Harvey (1989, cited by Endressen & Bergene 2006) argues that the incentives offered by governments in their quest for foreign investment actually increase the mobility of capital by reducing the costs of relocation. The trend nowadays is that MNCs want to invest as little as possible in production units, thus buying from subcontractors is preferred to investment in subsidiaries.

These observations support Jauch's arguments in the Namibian case. Jauch (2006) argues that Ramatex is not likely to stay in Namibia based on three factors namely the end of the MFA and the "Chinese attraction", the global Ramatex company strategy, and the special incentives offered by the Namibian government. As shown in this paper, government provided infrastructure to Ramatex of over N$ 120 million while Ramatex only brought factory panels and machinery containers for assembly. These items can easily be dismantled again and shipped out of the country (Ibid). The fact that Ramatex did not invest in infrastructure makes it very easy for the company to relocate. Substantial investment in infrastructure could have forced the company to stay and recover its initial investment before shifting production to another location.

As stated earlier, Ramatex was expected to create about 8000 jobs. The latest employment figures show that the company currently employs less than half of that number. This can be attributed *inter alia* to the closure of the Rhino Garments in 2005 which led to loss of 1 600 jobs. Although one cannot use employment trends alone to determine the behaviour of a company with regards to a possible closure, one can safely assume that if a company is retrenching, then it is in the process of downsizing, relocating or closing.

Finally, Ramatex was supposed to have a positive spillover into the local economy, especially the small and medium size enterprises. Thus far, Ramatex only subcontracts two functions: transport and security. Ramatex uses TransNamib and Maersk to transport its containers. Maersk in not a Namibian company, but an American shipping company, which transports the cargo to the buyers in America. Ramatex buyers appointed Maersk Company because Ramatex only transports the cargo up to the ports and the buyers have to find another company to transport the cargo to their shops. Thus the buyers prefer to use a company that can transport their cargo directly to their shops or warehouses. TransNamib only transports the cargo up to the port in Walvis Bay. Another local company that Ramatex works with is Customs Clearance Specialist (CCS), which provides services such as road tracking, certifying AGOA document and custom clearance. Currently, Ramatex sources 30 – 50% of local services from Namibian companies but the Namibian government hopes that this can be increased to 80%.

The end of the Multi Fibre Agreement and its impact on the textile and clothing industry

The Multi Fibre Agreement was signed in 1974 to put quantitative restrictions on textiles and clothing exports from developing countries, especially from Asia. This was done to protect the domestic industries in the US and Europe which were under threat by curtailing the increasing clothing exports of developed countries such as the US and European Union (Traub-Merz 2006). According to Morris (2006), the main objective of the MFA was to allow industrialised countries time to restructure their textiles and clothing industries before opening up to competition from developing countries. Naumann (2005) points out that the textile and clothing industry is the only sector in which quantitative restrictions were applied broadly. The quota restrictions system worked in such a manner that they were determined on an annual basis and applied differentially between countries and product categories, which resulted in a variation in the way in which countries were affected.

Thus the MFA made provision for the allocation of export quotas to low cost developing countries, reducing imports in industrialised countries whose domestic industries were facing serious challenges from fast increasing imports (Morris 2006). However, most of the countries did not fully utilise their quotas. This had several far-reaching consequences. The first one is that preferential trade access through quotas to Europe and the US resulted in production being spread to an ever-increasing number of countries. This resulted in the rise of a "special form of FDI quota hoping" as companies were constantly on the look out for countries, which had not exhausted their quotas. Secondly, when big Multinational Corporations (MNCs) operating in the textile and clothing industry reached the limits of their production quotas, they actively sought countries that have not fully utilised their quotas (ibid). According to Traub-Merz (2006) and Naumann (2005), this raised the opportunities for countries, which did not have textile and clothing industries (like Namibia) to develop this industry for exports as investors were attracted to countries whose textile and clothing industries were not fully developed but were

willing to provide incentives and low cost labour. Thus the rise in textile and clothing investment which came into SSA, especially from Asian countries was facilitated by the quota system and the benefits that the companies could accrue by having access to the US and European markets. Furthermore, during the MFA period, the movement of textile and clothing industry to developing countries resulted in the development and expansion of the sector due to lower production costs, which became an increasingly important basis for competitive advantage (Naumann 2005).
In 1994, after when the MFA had been in existence for two decades, developing countries pushed for the phasing out of the MFA. Thus the Agreement on Textiles and Clothing (ATC) was signed in 1995 that put in place a 10-year transitional regime during which the MFA would be phased out (Traub-Merz 2006). The ATC was a multilateral instrument agreed within the WTO framework that would provide for the regulated removal of quotas over the agreed period of 10 years (Naumann 2005).

Before the end of the MFA, many stakeholders raised concerns with regards to its implications on the African countries textile and clothing industry. One particular concern was that African producers were badly positioned to capture export markets when forced to compete on the same level with China and other Asian countries (Traub-Merz 2006). Asian manufacturers (especially China) are highly competitive as they enjoy very low operational costs compared to African manufacturers (Trade Justice Campaign, June 2006). In 2005, countries such as Lesotho, Swaziland, Kenya, Namibia and Madagascar experienced the impact of the end of the MFA. These countries experienced thousands of job losses due to closures of companies operating in the textile and clothing industry.

This trend of job losses due to company relocation makes the future of textile and clothing industries in Africa in the post-quota era very uncertain. In addition to the loss of jobs experienced, total exports from AGOA countries declined by more than 10 per cent (Traub-Merz 2006). Furthermore the end of the MFA will lead to a substantial reduction in the number of countries that major textile and clothing retailers will buy from (Naumann 2005).

On the other hand, the end of the MFA benefited China immensely, which experienced substantial growth in its textile and clothing industry. According to Jauch (2006) China's exports to the US increased by 258% in the first quarter of 2005. Jauch argues that the competitive nature of China lies in its ability to offer the full production chain from the production of cotton to the final products and is able to meet the demands of the global clothing and sportswear chains. In addition, China offers very fast manufacturing and transportation times, cheap electricity and has reached high levels of productivity. Other factors that make China more competitive is that during peak times, Chinese workers are forced to work throughout the week for up to 14 hours a day and also that the Chinese government has fixed their currency at a low level to make exports cheaper for international markets (Ibid). Lastly, China offers direct and indirect export subsidies in the form of low-cost loans to manufacturers (Naumann 2005).

In light of the above-mentioned factors, it remains uncertain whether AGOA on its own will continue to sustain the growth and development of the textile and clothing industry in many SSA countries. If recent trends are anything to go by, we can conclude that AGOA in its current form does not offer enough incentives to influence suppliers to stay in SSA countries. Thus other factors might come into play such as the global supply chain developments, the ability of African manufacturers to compete in terms of quality, lead times and prices. In addition, further legislative developments around AGOA will also influence the future of Africa's textile and clothing industry (Naumann 2005).

Critical analysis of AGOA

Critics of AGOA have pointed out that AGOA is not a trade agreement, but rather a unilateral trade preference programme that offers sub-Saharan African countries access to the U.S market. Thus this characteristic makes it unreliable as it is not binding and thus America can withdraw or change it at any moment. For instance, in the event of AGOA being withdrawn, all the costs incurred in developing infrastructure would be a loss and a waste of public funds. Furthermore, the rules of origin are unilaterally determined by US congress and are outcomes of negotiations among conflicting US interests (Flatter 2002: 6). This has two implications: AGOA beneficiaries have no influence on the rules of origin, which is very critical for their ability to fully benefit from AGOA. There is also no room for Africans to define their own developmental agenda. Secondly, people who support or represent businesses dominate the US congress and thus their decisions are likely to benefit business interests. One example of this is how the US retailers opposed the delay of quota removal as they stood to benefit from cheap imports (Naumann 2005). Naumann pointed out that the removal of quotas provides brand names (US retailers) with a greater choice of production locations, which in turn helps reduce production costs. Thus US congress did not ask for a delay in quota removal as requested by many developing countries, but rather acceded to the demands of US business.

The 2006 AGOA civil society forum was held Washington D.C and attended by delegates from US advocacy and development organisations, civic leaders and owners of small businesses from all over Africa. The forum examined the impact of AGOA's first five years on economic growth and poverty reduction. This meeting agreed that many countries had benefited from duty free access to the US market, especially in textile and apparel (http://www.bread.org). However, the meeting pointed out that the opportunities and benefits harvested under AGOA could still be made more meaningful while market access is important for economic growth. Experience from AGOA has shown that market access alone does not automatically lead to growth or poverty reduction (loc. cit). In order for AGOA to become effective and lead to economic growth and poverty reduction, it must be integrated into a strategy that aims to unleash the entrepreneurial forces of Africa. This means that AGOA needs to target the rural agriculture sector. Currently, AGOA has not spurred the kind and level of investment needed to create capacity and expand economic activity in the rural agriculture sector, on which the majority of the African people depend for survival. AGOA does not target the agriculture sector, which is supporting 70 per cent of the overall African population. African farmers exporting to the US market are met with stringent restrictions on the low levels of value-added products like coffee and cocoa they can export to the U.S due to tariff and quota barriers or due to lack of capacity to meet the phytosanitary standards (Trade Justice Campaign, June 2006).

Another area that AGOA should concentrate on is the provision of finance, skills development and technical assistance for small and medium enterprise operators in Africa. This would allow SMEs to expand production and enhance product quality, which will enable SMEs to meet global market standards and become competitive.
A further weakness of AGOA is that it does not promote export diversification as it is biased towards the clothing and textile industry. AGOA should provide preferences to different products, which will allow countries to maximise the potential of their existing products rather than trying to develop new industries or products in which they do not have a competitive advantage.

Finally, eligibility requirements of AGOA have and still continue to be of great concern, especially the requirements of establishing or making efforts to establish a market based economy and the elimination of barriers to U.S trade and investment and the protection of intellectual property. Experience has shown that adopting market-based economies does not necessarily lead to reduced poverty or creation of jobs, quite the contrary, it often results in increased poverty, inequality and unemployment as happened during the implementation of structural adjustment programmes (SAPs) in the 1980s and 1990s (see for example Chossudovsky 1995). Furthermore, government intervention in the economy is necessary to make sure that there is equitable distribution of resources and that all people have access to affordable services such as education and health care.

Textile and clothing industry as a vehicle for development in Namibia?

According to Traub-Merz (2006), the African Textile and clothing industry is in a major crisis due to two factors. Firstly, African markets have been flooded by cheap imports from Asia whilst at the same time (since 2005) African producers have to compete with Asian textile and clothing giants after the complete removal of quotas. Despite these threats, Traub-Merz (2006) still argues that the textile and clothing industry can still play the same developmental role in many African countries as it did many years ago in the US, UK, Japan and Germany. His argument is based on the historical experience of many countries that followed the path of textiles and clothing as a first step to industrialisation. However, he emphasises that all the countries that developed their textile and clothing sector applied some form of protection for its infant industries before opening up to competition. A case in point is the US and other European countries that protected their industries from cheap Asian imports by introducing the MFA. Naumann (2005) also points out that the textile and clothing industry is one of the first stages of economic advancement and further provides an opportunity for diversification of economic activities from a dependency on primary commodities. The emphasis on the importance of the textile and clothing industry as a springboard to development lies in the fact that it is relatively easy to establish and is labour intensive, thus having the potential to deal with the challenges of high unemployment.

Whilst historically, the textile and clothing industry played a critical role in industrial development, this may not necessarily be possible, especially in Sub Saharan African countries like Namibia. Reasons for this include lack of protection of infant industries due to trade liberalisation regimes and stiff competition on the global market and competitive advantage of other countries like China, heightened by the removal of the quota system. Furthermore, the majority of large clothing and textile exporters are from Asia, with very few located in other countries. No SSA countries are among the leading textile or clothing exporters in the world (Naumann 2005). There are only 10 SSA countries featuring among the leading 100 foreign suppliers to the US market. In addition, the participation and volume of imports from SSA in the T & C industry only increased when AGOA was introduced. SSA countries have a long way to go before they can become big players in this sector, especially in light of the removal of the quotas, which maintained the development of this sector in many countries. For countries like Namibia whose textile and clothing industry was only recently established, this industry might remain underdeveloped due to stiff competition at the global level. One way in which countries like Namibia can hope to use the textile and clothing industry as a vehicle for industrial development is by producing for the local and regional market and by protecting these markets against cheap imports as other countries did. This industry is still very young, and thus needs protection if it is to survive.

Conclusion and recommendations

The AGOA policy has strengths and weaknesses. One of its positive outcomes has been the improved market access for many SSA countries to the US and the development of the textile and clothing industry in countries like Namibia. With the introduction of AGOA in SSA, trade between US and SSA countries have shown a substantial increase. However, it is mainly concentrated among very few SSA oil-producing countries such as Nigeria, Chad, Angola and Gabon. South Africa is the only non-oil producing country that is among the top five SSA countries whose trade with the US has shown growth. Thus the main beneficiaries of AGOA are oil producing African countries.

In Namibia total exports to the US showed a substantial increase after the introduction of AGOA. However, this increase was short-lived as total exports have been on the decline since 2004. Also, the lack of AGO specific exports to the US makes it impossible for us to assume that the increase in exports in Namibia are solely due to AGOA. Based on our findings we can draw the following conclusions and recommendations:

- There is clearly a lack of information on AGOA in Namibia. Thus the Ministry of Trade and Industry should create a database of companies exporting to the US under AGOA, total exports to the US under AGOA and the number of jobs created under AGOA. This information should be made available on the Ministry's website.
- AGOA's ability to stimulate investment in Namibia has not been successful. To date, Ramatex is the only investment that is attributable to AGOA. Local businesses (textile and garment manufacturers) have been unable to benefit from AGOA due to various challenges. Market access alone as provided for under AGOA is not enough to allow local businesses to benefit from AGOA. Thus AGOA in its current form cannot and does not benefit SMEs or local businesses, but rather is aimed at benefiting large Multinational Corporations. Thus there is a need to support the local initiative such as the Namibia Garment Marketing Company, which promotes local garments manufacturers.

- The AGOA policy targets the textile and clothing industry and thus provides for preferences for many of its products. This has positive and negative implications. The positive implication is that this sector requires little start-up capital and is labour intensive and thus has the potential to alleviate unemployment. On the other hand, this industry has been referred to as being “footloose” because companies operating in the textile and clothing industry tend to relocate their operations quite easily. Infrastructural incentives provided by host governments re-enforce this trend, as investments in infrastructure by businesses themselves would force them to stay longer in one location in order to recover their investment. A case in point is Ramatex, which was willing to shut down parts of its operations after less than four years in Namibia. The infrastructural incentives provided by the Namibian government meant that the company has very little immovable property in Namibia, making it very easy for it to relocate to a more favourable location. Thus the practice of providing infrastructure to foreign investors is neither suitable nor sustainable to promote long-term industrialisation.
- The Namibian government’s financial support for Ramatex could only be justified if the investment is of a long-term nature, leading to sustainable, decent jobs and systematic skills transfer to Namibians. This study found that Ramatex has no long-term commitment to stay in Namibia. It decision to stay or to relocate is purely based on profitability. Thus in the event of the company experiencing diminishing profits, the company is likely to close down its Namibian operations.
- Working conditions at Ramatex tend to be poor and thus the jobs created cannot be classified as decent employment. The wages earned by Ramatex workers still fall below the minimum wages earned in other industrial sectors in Namibia despite recent wage increases in 2006. Thus there is a need to bring Ramatex wages in line with other industries to enable workers to escape the poverty trap. This should be the target for the Namibia Food and Allied Workers Union (NAFAU) as the union, which has exclusive bargaining rights at Ramatex.
- The Ramatex Company has publicly claimed that it has been making losses since it begun operations in Namibia. However, the company has not been able to make public its financial statements to support its argument. Thus in absence of this

information, we calculated the Company's total wage bill using textile and apparel exports to the US based on the assumption that Ramatex is currently the only textile company exporting to the US. These calculations revealed that the wage bill amounts to 11-16% of Ramatex' earnings, thus contradicting the claim of losses.

- The anticipated number of jobs, which were to be created by Ramatex, has not been realised. To date, the Ramatex factory employs about 3 600 workers after having reached a peak of approximately 6000 workers in 2003-04. The reduction in jobs could be associated with the closure of Rhino Garments in 2005, which was linked to the end of the MFA and the company's plans to relocate to China. Thus if employment trends are anything to go by, one can conclude that Ramatex's future in Namibia is uncertain.
- International experiences in many developing countries have shown that an industrialisation strategy that is based on the goodwill of foreign investors, coupled with repressive labour conditions and environmental degradation cannot lead to sustainable development. Thus one can conclude that the Ramatex investment in Namibia as the only AGOA investment in Namibia will not enhance the country's socio-economic development.
- The only way the Namibian textile and clothing industry can benefit from AGOA is to strengthen the local manufacturers through incentives and protection while they are in their infancy stages, a strategy adopted by virtually all industrialised countries, including those of South-East Asia.

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