

## **The Africa Growth and Opportunity Act (AGOA) trade regime: Opportunities and challenges for Botswana**

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For a long time now, African countries have been demanding increased trade with the developed economies of the West as a means to promote economic development. 'Trade not aid,' has become the hallmark of this demand. Increased trade is to be realized through preferential access to developed economies markets, especially in manufactured goods. It is hoped that exports of manufactured goods would propel industrialization and help diversify economies away from traditional raw material exports. The USA has responded to Africa's demands through the Africa Growth Opportunity Act (AGOA) that allows Africa access to the world's biggest and most lucrative market. This article examines the objectives of, and benefits under, AGOA with a view to analysing the opportunities it creates for Botswana's economic diversification into manufacturing, especially in the case of textiles and apparel industries; and the challenges it poses for Botswana. Analysis of the challenges help us to highlight not only Botswana's internal weaknesses and problems but also that of the AGOA provisions, as well as pose the question of who benefits, helping us unravel the US motives behind AGOA.

### **Trade and development**

Foreign trade is central to African economies because it is the principal source of revenue (Browne, 1996:280). Unfortunately, there has been a steady dwindling of earnings from the exports of primary commodities due to declines in the terms of trade. Ironically, to development analysts, foreign trade remains the cure prescribed to address Africa's development malaise. Liberals emphasize the importance of foreign trade to economic development as it is believed to be mutually beneficial to both trading partners. Trade allows developing countries access to Western technology and investment, essential to development. Trade, as an 'engine of growth', presupposes an export-oriented path to development, based on a country's comparative advantage. Export-orientation essentially means that the state has to actively develop its competitive edge to capture a share of the global market. The success of East Asia's newly industrialized countries (NICs) gives credence to the export strategy and represents a practical example of the benefits of a deliberate policy of running a trade surplus in international trade (Kukreja, 1996).

With increased globalization, the importance of international trade cannot be overemphasized. It allows a country to position itself within the changing international division of labour, and to map out a niche in the global commodity chain to attain some level of competitiveness so as to survive in the world market. The new international division of labour means that developing countries have to attract a sizeable portion of the relocation of manufacturing activities to the periphery or semi-periphery from the core economies. Countries with cheap, skilled, and unorganised labour, subject to controls, as in East Asia and Botswana, are the most preferred relocation areas by transnational corporations or as producers for brand name designers and trading companies. Botswana's textile industry is integrated into the commodity chain through contract production for overseas buyers, and is of the cut-make-trim (C-M-T) type. Lopez and Stohl (1989) and Gereffi (1997) argue that the new international division of labour gives opportunities to developing countries to industrialize as cheap labour provides a comparative advantage. In this respect, AGOA might be seen as an additional opening for African economies to have greater

access to the US market, similar to the concessions under the Generalized Systems of Preference (GSP) secured by the United Nations Conference on Trade and Development (UNCTAD) and free trade offered by the European Union (EU) to African, Pacific and Caribbean Countries under the Lome Convention, and currently under the Economic Partnership Agreement (EPA) signed in Cotonou, Benin (Kukreja, 1996; Spero and Hart, 1997; Brown, 2000).

However, trade has been a big source of tension between the industrialized North and the developing South as the former is said to practice unfair trade practices detrimental to the South. Even institutions like GATT/WTO, initiated and controlled by the West, have mostly ignored Africa's needs, especially in agriculture, and have approved many provisions which negatively affect Africa's interests while allowing the West to continue with agricultural subsidies and erect tariff barriers on imported manufactures (Browne, 1996; Oshikoya, 1996; Cheru, 1997). The South has been unhappy for a long time with the liberalized international economic order which it believes "perpetuates their poverty and unmet economic and social problems" (Mansbach, 1997:419).

Critics, especially, dependency theorists, highlight the domineering and exploitative nature of the North-South trade and the decline in the terms of trade for Southern exports over time. Africa (and other developing regions) had to use its 'latecomer status' and marginal contribution to world trade (less than one per cent of the total) to demand concessions and preferential treatment on tariffs and duty on its goods from the developed West. However, the developed West has acted bilaterally and unilaterally in managing trade ties with the South. AGOA should be seen in this light, and as an attempt by the North to demonstrate the accommodative nature of the existing global trade arrangements, which the South unsuccessfully tried to restructure in the 1970s through the call for a new international economic order (Mansbach, 1997; Kukreja, 1996).

The question is what to produce for export? Drawing from experiences in Japan and the East Asian NICs, trade can be an engine of growth if the state plays a positive role in choosing and promoting new industries which are internationally competitive, have export growth potential or enjoy positive externalities, and adopts a deliberate policy of running a trade surplus (Balaam and Veseth, 1996; Timmer, 2000). Mauritius adopted the East Asian experience for its own industrial growth and diversification of the economy since the 1980s, and effectively utilized the preferential access for its apparel exports to markets in the US and EU under the Lome Convention. These experiences suggest that the textile industry is suitable for export policies and diversification by countries like Botswana aspiring to 'industrializing' status.

Through AGOA, African exporters are expected to realize economies of scale and international competitiveness, and thereby improve on their efficiency through sales to the US market. It is also assumed that export of labour intensive manufactures, like textiles, would improve the income distribution for wage earners in the labour abundant economies of Africa. This implies that Sub-Saharan Africa (SSA) as a developing region, should manipulate the textile industry because that's where their niche lies. Lall and Stewart (1998) argue that the dynamics of comparative advantage dictate that developing countries specialize in areas of activity where they have genuine comparative advantage, especially in textiles. History also suggests that textile have been important in Britain's industrial revolution, making the cotton industry the prime mover of growth (Dicken, 1992). Gereffi (1997) pushes the argument further by pointing out that the textile industry is ideal for the initial stages of industrialization, primarily as a 'take-off' industry, which would eventually give way to advanced industrialization for sustainable development.

### **The AGOA trade regime**

#### ***Eligibility provisions***

AGOA presents a remarkable shift in US policy towards Africa, from total indifference and neglect to fostering cooperation through trade and investment (Alden, 2000; Minter, 2000). Schraeder (1998:5) argues that 'the Clinton administration has reinforced a post-Cold War trend of de-emphasizing foreign aid in favour of promoting trade and investment as the preferred economic

component of US foreign policy towards Africa'. AGOA remains the linchpin of foreign policy of President Bush's administration, which brought into being AGOA II on 6 August 2002.

AGOA I, initiated by President Clinton's administration, was enacted into law in 2000, and was initially expected to end in 2004, but it has been extended to 30 September 2008 (AGOA Report, 2002). Its major objective is to improve economic and trade cooperation between the USA and SSA countries by allowing all products from eligible SSA countries, duty-free and quota-free access into the US market. Only countries with no free trade arrangement with the US qualify. AGOA also offers SSA greater access to US technology, expertise and credit. To date, 36 SSA countries are eligible for AGOA, including Botswana, with preferential treatment for 6000 of their products. However, participating SSA countries can only qualify if they satisfy criteria stating that they are making progress in a number of areas, including political reforms with emphasis on pluralism and the rule of law; elimination of barriers to US trade and investment; protection of intellectual property; combating corruption; policies for poverty reduction; increasing availability of health care and education; and protection of human rights, and workers' rights; and elimination of use of child labour, among others (AGOA Report, 2002).

It is AGOA's potential to stimulate the growth of manufacturing industry in SSA and diversify its export base through textiles and apparel that is of special interest for my analysis. Apparels were targeted for special access to the US market for several reasons, one of which was the suitability of textiles to Africa's dire economic situation. This is premised on the belief that labour-abundant economies have export competitiveness in labour-intensive products (Isaak, 1991:81). Ryberg (2003) identifies three reasons to explain the special consideration given to the textile industry. First, the world-wide system of apparel quotas and high import duties on apparel in the mid-1990s, which prohibited African exports, prompted AGOA drafters to extend quota free and duty free arrangement for apparel from Africa to safeguard investment and trade. Second, the textile industry is labour intensive, which means the creation of jobs in new and expanding factories. This would alleviate the high rate of unemployment, typical of African economies. Third, quota and duty free access to the US market makes eligible African countries attractive to foreign investors who may have reached the limit of their expansion in their own countries due to quota restrictions. Companies from East Asia and Mauritius would fall in this category.

Certain conditions, albeit stringent, have to be met by eligible SSA countries to qualify for duty free and quota free exports of apparel into the US market. Apparel has to be made in Africa from US fabric, US yarn and US thread or from an AGOA eligible country. In this respect, AGOA I provides for growth of apparel imports made from fabric and yarn produced in beneficiary SSA countries from 1.5 per cent of overall US apparel imports to 3.5 per cent over an eight-year period (AGOA Report, 2002). Moreover, beneficiaries are required to implement an effective visa system and laws, and regulations and administrative procedures to ensure enforcement and verification to guard against unlawful transshipment of commodities and use of counterfeit documents. The eligible countries must also be beneficiaries under the GSP. In addition, beneficiaries have to satisfy security provisions as part of anti-terrorism and anti-narcotics measures; and social responsibility requirements designed to protect workers' rights, discourage use of child labour and environmental protection in both producers of garments and suppliers of inputs (AGOA Report, 2002:15; Cason, 2003). Security requirements have been even more stringent in the post-9/11 period. In 2001, the US Trade Representative authorized 17 countries, including Botswana, to be granted a visa system after they demonstrated that apparel and textile goods are in fact produced in beneficiary SSA countries in accordance with the required rules of origin (AGOA Report, 2002:17).

AGOA II, as an amendment to AGOA I, improved, clarified and expanded preferential access for exports from SSA by providing clear meanings for terms like fabric, duty-free trade and customs clearance, stipulating a Special Rule for lesser developing beneficiary countries, and encouraging more investment in the region. The Special Rule allows them to source and utilize fabric manufactured anywhere in the world other than the US until 30 September 2004 (AGOA Report, 2002:21). Botswana and Namibia were re-classified as lesser-developed countries in 2002 to

benefit from the Special Rule in spite of the fact that their per capita GNP in 1998 exceeded US\$1,500.

***Trade, Investment and Employment in SSA***

Beneficiaries are already reaping the benefits from AGOA in terms of trade, investment and employment. Data indicate that US imports from SSA have increased by 61.5 per cent over the last two years. In 2000, AGOA trade made the US the largest single market absorbing 27 per cent of the SSA exports. In 2001, the US imports were valued at US\$8.2 billion, representing four per cent of all imports from SSA (AGOA Report, 2002:1). Oil is the single dominant export with Nigeria and Gabon accounting for 68 per cent of US imports, followed by minerals and metals with 15 per cent and textiles and apparel at 5 per cent (Office of I.I. Programs, 2003).

Among the principal beneficiaries from AGOA trade are three countries which accounted for 92 per cent of AGOA duty free benefits in 2001, with Nigeria topping the list with exports totalling US\$5.7 billion, Gabon US\$938 million and South Africa US\$923 million (AGOA Report, 2002:5). Textiles and apparel are the leading manufactured exports. Since AGOA became operational, US textiles and apparel imports from SSA have increased significantly in the last two years. Major exporters of textiles and apparel include Kenya, Lesotho, Mauritius, South Africa and Swaziland. Among the major US companies buying apparel from Africa or investing in apparel production are Levi Strauss, Sara Lee, Victoria Secrets, The Gap and Nordstrom (Cason, 2003).

AGOA's tangible results can also be seen in terms of the establishment and expansion of manufacturing plants through the inflow of new investment thereby creating new job opportunities. Commonly cited examples of beneficiaries include the following: Kenya, which has received US\$13 million for the construction and operation of a factory and has seen the creation of 20,000 new jobs. In Lesotho, 12 new factories have been built, with 8 existing factories earmarked for expansion, and 15,000 new jobs have been generated allowing manufacturing employment to surpass that of the government for the first time in Lesotho history. Similarly, Swaziland has eight new factories, and 11,000 jobs have been created. 4,350 jobs have been created in Malawi while 90,000 jobs in South Africa are said to be a direct result of AGOA. Mauritius is reported to have received US\$ 78 million investment. Namibia seems to have netted the biggest share of investment totalling US\$ 250 million, with 8,000 jobs expected in a five-year period, and an extra 18,000 jobs have been estimated in ten years' time (AGOA Report, 2002:3).

**Botswana and AGOA**

AGOA provides Botswana with opportunities to boost textile production and promote exports of manufactures as a means of diversifying the economy. Currently, Botswana's foreign trade relies predominantly on mineral exports, diamonds and copper nickel, to generate resources for national development. Minerals contributed 50 per cent to the government's revenue, 80 per cent of its foreign exchange and 36.5 per cent of its gross domestic product in 2000/2001 (Ministry of Finance and Development Planning, 2003:27). However, the mining industry employs relatively few workers due to its capital intensity. Manufactures contribute relatively little to export trade. AGOA, therefore, could be used to promote the national objective of economic diversification as outlined in the National Development Plans in order to realize the goals of Vision 2016.

The government has identified the manufacturing industry as one of the industries with potential for diversification. The need to diversify through exports of textiles and apparel under AGOA is due to a number of factors. Diamond exports have experienced recession due to declines in international demand, and thereby reducing mineral revenues available to the government. Currently, the country's diamonds face an apparent threat from international pressure groups arising from the controversy of 'conflict diamonds' as a result of the relocation of the Basarwa. Taken together, these factors have made the government aware of the un-sustainability of a mineral-led growth. The government also appreciates the imperatives of globalization which require Botswana to

position itself in order to compete in global markets by adjusting its economic structure and institutional framework to take advantage of opportunities offered by globalization.

In this respect, the government has identified improving competitiveness in sectors where the country has comparative advantage, as the central theme of the NDP 9 (Ministry of Finance and Development Planning, 2003). Moreover, the government has embraced AGOA and has been involved in its implementation. A USAID-funded AGOA consultant worked with the government and the private sector to form an inter-ministerial committee on AGOA implementation. In addition, government officials participated in US-sponsored AGOA seminars, and in a Customs-sponsored training course (AGOA Report, 2002: 76). The government and Botswana Export Development and Investment Authority (BEDIA) were central in negotiating the reclassification of Botswana as a lesser-developed country under AGOA II to enable Botswana to develop a thriving export-based textile industry. The need to create new jobs, given the high rate of unemployment which currently stands at 21 per cent, and to reduce poverty and income inequalities, are added incentives to the government's positive posture towards textiles and AGOA.

Thus, manufactures have been acknowledged as crucial to employment creation, poverty alleviation, income inequality reduction and sustainable development in Botswana. It is my view that textiles and apparel, in spite of the many negative factors associated with them, can be used to jump-start the process of industrialization, and help build a base for eventual advanced industrial operations. This will help shift the economy away from dependence on diamonds, and beef which currently makes up the largest component of exports.

While it is appreciated that Botswana might be disadvantaged given the failure of textile companies in the past, especially, under the Selebi Phikwe Regional Development Programme and the Botswana Development Corporation (BDC) assisted companies, and the stiff regional competition from AGOA eligible countries like Mauritius, AGOA presents another opportunity for stimulating the textile industry. The potential for the development of the textile industry in Botswana lies not only in AGOA provisions including the Special Rule, but also the availability of abundant labour, low investments needed to start and maintain operations, and past successes in textiles of the 1980s which might be replicated. Other positive factors include institutional capacity and the government's assistance to the manufacturing sector, which should be intensified if the government is serious about diversification through textiles exports. The hope is that the government can utilize some of the diamond revenues for the development of the textile industry.

Botswana appears suited to actively attract companies to take advantage of AGOA trade concessions because of the conducive environment for investors as a result of good economic management by the government and adherence to a free market economy. Also, its good name as the longest and politically stable democracy in SSA can be capitalized on. More important is the leading role of the state in providing the necessary environment for investment and trade, and more especially, development of industrial skills to enable the textile sector to take advantage of AGOA provisions to maximize benefits accruing to Botswana.

Since independence, the government's industrial policy has emphasized the lead role of the private sector, both local and foreign, and promotion of exports. This fits in very well with one of AGOA's conditions, that of putting emphasis on the private sector as the propeller of growth. The role of the state, therefore, has been to support the private sector through provision of the necessary legal framework and infrastructure. However, in the absence of an indigenous entrepreneur capable of stimulating industry, the state, through its ministries and parastatal institutions, has confined itself to an active role in providing incentives, building capacity and entrepreneurial skills of citizenry and providing inducements to foreign investors. In this way, the state has shied away from assuming a direct entrepreneurial role.

The state, through the BDC, invested in Haltex, Beach Club, Tex, Northern Textiles (Nortex), Algo Spinning, and Kalahari Textiles. All have collapsed, except the last three. Some of the lessons which could be learned from the collapse of these industries relate to the 'lax' nature of state assistance given to the textile industry, and the nature of private investment, which mainly utilized

state support without commitment to long-term stays in Botswana. Sentsho (2002) faults the state for not playing a substantial entrepreneurial role to 'jump start' the private sector's participation in the economy to promote economic diversification. Whereas the state did not make considerable effort in the past to assist the textile industry relative to the mining sector through investment and export promotions, there are indications of a more positive trend now. Aggressive investment promotions and scrutiny of investors by both BEDIA and the Ministry of Trade and Industry have paid dividends and attracted capital from East and South Asia, primarily in the textile sector.

The Department of Trade and Consumer Affairs in the Ministry of Trade and Industry and BEDIA have been instrumental in educating producers to enable them to maximize advantages of AGOA. Also the Bureau of Standards helps companies to meet AGOA conditions through quality control. The government has assisted textile companies with loans and building of entrepreneurial skills through mentoring programmes. The government has also created the integrated financial services which organizes courses to assist entrepreneurs in garment design, machine selection and maintenance of sewing machines. The Ministry of Trade and Industry has identified products which can be exported under AGOA to include footwear, textile and apparel, handbags, luggage, leather, glass products, work gloves and watches. The government had to amend the Customs and Excise Act as part of AGOA conditions to enable textile and apparel companies to benefit from free trade. The Visa System was granted to Botswana in 2001 by the US after the amendment (Ministry of Finance and Development Planning, 2003: 113).

The textile industry can benefit from a variety of schemes to take advantage of AGOA trade. Through the Financial Assistance Policy (FAP), which was designed for labour-intensive production, the state availed a wage subsidy to companies for five years, training subsidy of 50 per cent to absorb costs of training citizens, and capital subsidy of 40 to 50 per cent on investment. Credit assistance was also given through the Small, Medium and Micro Enterprise (SMM) scheme. NORTEX, for example, has benefited from subsidized training under FAP. Both FAP and SMM have been subsumed under the Citizen Entrepreneurial Development Agency (CEDA). Through CEDA, the government hopes to promote citizen's participation in the economy and joint ventures through provision to potential investors of subsidized loans, training, monitoring and mentoring, and a Venture Capital Fund (Ministry of Finance and Development Planning, 2003: 62). The government also offers assistance through BEDIA and the BDC, which together provide affordable factory shell space to facilitate smooth implementation of industrial projects, particularly, those by foreign investors. AGOA-induced companies can take advantage of these facilities. AGOA-eligible companies have other inducements, especially, BEDIA's offer of a tax holiday, and 15 per cent tax concession for the manufacturing sector, including textiles, and export promotions.

Nine companies registered so far to export textiles and apparel under AGOA. Of the nine, five are located in Selibe Phikwe, three in Gaborone (only one remains now) and one in Francistown. Six companies now actually export textiles and apparel to the US. Four of the six are assisted by BEDIA. The four companies include B and M Garments, Dinesh Textiles, Star Apparel and Rising Sun (Department of Consumer Affairs, undated). The textile sector has already reaped benefits of AGOA as companies started exporting in 2001, selling such products as jerseys, t-shirts, pants, and denim jeans, jackets and shirts. Export earnings steadily increased since 2001, more than doubled in 2002 and are likely to improve further in 2003 (Table 1).

Garment Promotions was able to export t-shirts consistently throughout 2002, but Caratex earned the most in export revenues, US\$2,062,711, during the same year (Table 2).

The good performance of Caratex gives some hope for the textiles and apparel industry as a source of diversification in Botswana. Caratex's acquisition of the defunct Star Apparel (renamed Vision International) and Algo Industries (Odirile, 2003) testify to a promising future for the industry. Similarly, there is optimism that textiles exports under AGOA might increase in the future as six more companies have registered, but have not yet started exporting to the US (Customs and Excise, 2003). Other benefits accruing to Botswana under AGOA was US\$1.5 million in new investment by AGOA-induced Sri Lankan company in textiles and apparel and 2,000 new jobs were to be created by the end of 2002 (AGOA Report, 2002: 75).

**Table 1**  
**Volume of Textiles and Apparel Exports Under AGOA, 2001-2003, US\$**

YEAR	2001	2002	2003
January	-	121 467	835 121
February	-	106 362	428 795
March	-	216 010	80 439
April	-	143 746	308 577
May	42 699	163 473	761 750
June	-	1 191 720	371 738
July	-	199 994	1 871 424
August	169 705	672 188	-
September	1 226 372	772 493	-
October	546 675	242 899	-
November	-	-	-
December	221 459	1 314 159	-
Total US\$	2 206 910	5 144 511	4 657 844

Source: Department of Customs and Excise, Gaborone, 10 October 2003

### Challenges

There are numerous problems and challenges which face Botswana's textile sector as it tries to reap the benefits from AGOA. These arise from both internal deficiencies and provisions of AGOA, which raise doubts as to the possibility of transforming the textile industry into a viable source of diversification. The problems include deficiency in capacity; low product range; low levels of productivity of labour and technology; high input and transport costs; and inadequate institutional support. It is highly doubtful that the Botswana economy, and textiles in particular, is adequately prepared for the competition inherent under AGOA, given the many beneficiaries and the need for high quality products to meet changing consumer tastes in the US. This is primarily due to inadequate capacity of producers to expand production and export massively to the US market. This is a problem of low levels of technology, an indicator of the lack of modern technology and inadequate skills. A weak industrial base is also evidenced by the size of companies, most of which are small-scale producers, with few workers, ranging from 22 to 700. This figure rose up to 1300 with Caratex's acquisition of Star Apparel and Algo (Odirile, 2003). The product range is also very narrow, mainly t-shirts, but t-shirts do not necessarily guarantee high export earnings. The narrow range of products suggests that the textile industry would find it difficult to accommodate rapid changes in tastes and style in the US market or the global market in general in post-AGOA period.

A closer look at Table 2 shows that very few companies (5) have taken up the challenge to



Table 2  
Volume of Exports under AGOA for January-December 2002

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total US\$
<b>Garment Promotions – T-shirts</b>												
94611	106362	128758	99666	127437	462372	199994	31248	203455	43860	188245	192275	1878243
<b>Dinesh Textiles Pants — Denim Jeans</b>												
26856	----	37752	44080	----	66270	----	89290	----	143946	----	----	408184
<b>Javeira Denim Pants</b>												
----	----	49500	----	----	----	----	----	----	----	----	75539	125039
<b>Caratex Jerseys</b>												
----	----	----	----	36036	663078	----	551660	569038	242899	----	----	2062711
<b>Star Apparel Pants</b>												
----	----	----	----	----	----	----	----	----	----	----	305586	305586
<b>Total US\$</b>												
121467	106362	216010	143746	163473	1191720	199994	672198	772493	430705	188245	2303400	4779763

Source: BEDIA, undated



export under AGOA. The majority of companies (4) have erratic export capacity, with only one textile company out of the five able to export to the US consistently throughout 2002. Botswana has sold relatively little textiles and apparel under AGOA. In contrast, Lesotho has seen a more than seven-fold increase in textile and apparel exports since 2001 placing it in the top five exporters (Keketso, 2003; McDermott, 2003). Inadequate capacity is also attributed partly to input costs including high costs of utilities like water, electricity and telecommunications; exorbitant transportation costs because Botswana is landlocked; 'third class' industrial workers who are largely unskilled and poorly paid, but are seen by their employers as not productive and not self disciplined; and high interest rates on loans. Capacity is also affected by reliance on imported inputs and lack of primary processes like spinning wheels. Most of the raw materials are imported from South Africa, Zimbabwe and the Far East. Moreover, the C-M-T type of garment production limits the beneficial impact of textiles by reducing employment opportunities, remuneration and revenues as it is an end process type of production.

Inadequate numbers of indigenous entrepreneurs and little foreign direct investment (FDI) pose a severe strain on the country's ability to make full use of any free trade arrangement. The difficulty associated with enhancing the productive capacity in the manufacturing industry in general, and textiles industry in particular, stems from Botswana's inability to build up its human resources in the short-run, and to attract substantial FDI. In FDI, Botswana has been outperformed by other countries within the region like Lesotho and Namibia, which fall in the same population size bracket. Yet Botswana meets the many prerequisites for FDI, mainly free market economy, low corporate tax, state assistance, security of private investment and property, political stability, low labour costs and adherence to international agreements. In 2001, the government passed new legislation which made Botswana comply with the trade-related intellectual property rights (TRIPS) agreement of GATT/ WTO (AGOA Report, 2002:75). TRIPS, essentially, guarantees the protection of US multinational corporations which might prefer to invest in Botswana. Fidzani quoted in Odirile (2001) explains the failure to attract FDI by Botswana as stemming from the economy's dependence on imports, primarily from South Africa, and the fact that the government, is both the biggest consumer/buyer and the holder of the wealth of the country, yet it is not an investor.

The stringent and numerous requirements prevent Botswana textile companies to take full advantage of AGOA. This, in turn, explains the inability of companies to export every month to the US as shown in Tables 1 and 2. The stringent export requirements might also help to explain why only five companies are currently making some use of AGOA free trade while many other textiles companies are not. Not only are AGOA exporters required to export quality products, they are also expected to meet customs, social responsibility and security requirements. Botswana's textiles and apparel exporters might be faulted for their reluctance to obtain certification for their goods from the Botswana Bureau of Standards because of the time lag in processing the certificates. Yet, certification is critical to quality control to meet buyers' specifications for products, labelling and packaging, and shipment marking. Tedious customs procedures are also not viewed favourably by garments exporters.

The short span of the Special Rule in AGOA which allows Botswana to source fabrics from any country in the world poses another difficulty for the survival of AGOA-dependent textiles sector in post-2004. From 30 September 2004, the rules of origin in AGOA will require all eligible SSA to use fabrics and yarn made either in eligible SSA country or the US. This spells trouble for Botswana and some SSA textile exporters because no AGOA eligible SSA country currently produces significant quantities of fabric and yarn. This, therefore, may negatively affect exports, and even threaten the survival of the textile industry in SSA. This is because inputs costs and prices of exports would increase when fabrics and yarn are sourced from the US, which would make it even harder for Botswana's exports to compete for the US market with well entrenched suppliers from Asia who have relatively cheap inputs, cheap labour costs and higher productivity rates than Botswana or any other country in SSA.

Botswana and other lesser-developed countries of SSA could still benefit beyond 2004 if two

things happen: First, the US Congress could amend the rule of origin provision in AGOA and extend it beyond 30 September 2004. This might prove difficult in view of the strong pressure from the American Apparel and Footwear Association which has been urging the government to adhere strictly to the 2004 deadline, and representatives of the textile-states. Representatives of textiles-state opposed the AGOA bill from inception because the removal of import quotas would be detrimental to US manufacturers (Minter, 2002:202). However, extension of the Special Rule might not be in Botswana's interest of achieving international competitiveness. Botswana and others have to learn to compete and stop hiding behind special treatment and be flexible enough to switch from one commodity to another as they adjust within the global commodity chain till they find their rightful niche or role to play. Besides, there is no guarantee that extension of the Special Rule would give Botswana enough time to nurture its competitiveness in production of processed goods.

The biggest challenge for the private sector, therefore, is to strive to be more competitive to be able to sell anywhere in the world beyond the duration of the preferential market access, whether AGOA, GSP or EPA. This is more important given the fact that special treatment accorded to developing countries will be phased out eventually as the World Trade Organization's rules of trade are universally adopted. Developed nations, like the US, have become wary of providing special treatment to developing countries in the face of growing adherence to a free global market. Second, a new SACU-US trade agreement with new rules of origin beneficial to SACU could be concluded between the two parties to replace the current memorandum of understanding, signed in 2002. Free trade arrangements have been granted waiver under the WTO trade rules.

More telling on Botswana, and other SSA countries, is the inability to take advantage of preferential access to developed countries' markets under the GSP secured by UNCTAD and Lome Convention by the African, Caribbean and Pacific countries to the EU market which have been in existence long before AGOA came into effect. Botswana used the preferential access to the EU market for beef exports but failed to do the same for garments exports or any other manufactures. Given the inability in the past to take full advantage of free trade arrangements, it is not surprising that Botswana has not yet made a concerted effort, and finds it harder to register high textile exports under AGOA. This might be attributed to two facts. First, in spite of the fall in international demand and threats from international lobbyists, Botswana still receives healthy diamond revenues. Second, and perhaps more important, is the fact that lack of skills and technology remain the biggest obstacle to full utilization of existing preferential markets and attainment of international competitiveness. The government fully acknowledges the problem posed by these two deficiencies, and thus, urges industry to strive to access modern technology and adapt to new technological developments; and enhance productivity levels through the adoption of efficient management information systems and training programmes (Ministry of Finance and Development Planning, 2003:129). These are seen as crucial to both export capacity building and sustainable development.

#### **AGOA – engine of growth for Africa?**

The US portrays AGOA as mutually beneficial to Africa and the US, and some African businesses and political leaders have echoed the US sentiments. A crucial question that emerges is who benefits? In other words, is AGOA a true engine for Africa's growth or a tool for realizing US foreign policy and economic objectives in Africa? Whereas it is appreciated that trade can never be equal, nevertheless, it has to strive towards making both trading partners better off. A closer scrutiny of AGOA shows that it can be seen as an instrument for promoting US foreign economic policy objectives, and to lessen the monopoly the former colonial masters, i.e. Europe, have in Africa. A number of factors support this view. The fact that AGOA did not include SSA's participation to identify the critical policy areas of interest to the region underscores the less than genuine desire to promote growth in SSA by the US.

AGOA offers a narrow range of exports by SSA and fails the ultimate test, that of catering for commodities crucial to Africa's immediate interests, namely agriculture and minerals, on which most are dependent. 'The American government grants access only to those goods that it decides may not negatively affect US producers... coffee and sugar, of economic benefit to Africa are not covered' (Sardar and Davies, 2002:77). In 2002, for example, agriculture exports made up one per cent of the total US imports under AGOA. Only one of the products identified by the Botswana Ministry of Trade and Industry for exports under AGOA, leather, is an agricultural commodity. SSA would have benefited more if it had been granted favourable access to the US market for processed agricultural goods (thereby reorient agriculture from unprocessed exports), and a wider range of manufactured goods rather than merely textiles and apparel (which enjoy a special dispensation), and if the US had reduced or eliminated government subsidies to its farmers to help African farmers sell in the US market (Katzenellenbogen, 2003). A concession for agricultural goods would have given Botswana beef preferential access to the US market, in addition to the EU which is likely to come to an end with the implementation of the WTO trade rules. Unfortunately, the US cannot extend concessions to SSA agriculture because of the need to protect economic interests of its domestic constituency, namely American farmers.

The fact that the US expects SSA to run before it can walk also highlights a lack of appreciation for Africa's conditions and needs. AGOA's free trade is premised on the unrealistic assumption that SSA has the capacity both to produce industrial goods and export them massively to the US. The fact that not all, but 22 of the 38 eligible countries have exported something under AGOA by mid-2002 (Katzenellenbogen, 2003), shows the weak industrial capability of most of SSA, including Botswana. This means that it would have made more economic sense if the US had simultaneously encouraged the development of SSA's industrial capacity and offered free trade arrangements. Undoubtedly, the US trading and investment corporations and consumers benefit disproportionately from AGOA. Evidence suggests that the US is the major beneficiary, which in turn undermines the claim that AGOA is aimed at creating a niche for Africa's growth. For example, 80 per cent of AGOA exports to the US market consist of oil from Nigeria and Gabon which is landed at lower costs to refiners, thus benefiting US consumers as well (Katzenellenbogen, 2003). The predominance of oil imports means the continuation of traditional exports by Africa, denying it the chance to industrialize. Similarly, US direct investment is concentrated in the petroleum sector in Nigeria and Angola. Three countries receive the bulk of US direct investment, with US\$2.83 billion for South Africa in manufacturing, US\$1.32 billion for Angola in oil and US\$1.28 billion for Nigeria in oil. The three account for 58 percent of US direct investment in SSA (AGOA, 2002:31). In addition, American companies are expected to benefit enormously from the forced privatisation of the public sector in SSA countries, thus possibly facilitating the exploitation of African economies.

### **Conclusion**

Undoubtedly, AGOA has created opportunities for Botswana to expand export promotion in general and textiles in particular, as a means of diversifying from the diamond dependent economy. This is a positive factor in the effort to realize national goals, and attain international competitiveness to effectively participate in the global division of labour. However, the numerous problems and challenges faced by Botswana, primarily inadequate skills and lack of modern technology, have made it impossible for the textile sector to take full advantage of not only AGOA but also earlier preferential market arrangements. The fact that AGOA is more of a US tool for making inroads into Botswana and SSA as a whole, makes it fall short as a mechanism for promoting Africa's growth. It seems pertinent past experiences, and constant warnings by analysts, have been largely ignored by African leaders. The Nobel Laureate, Joseph Stiglitz, warned that Africa's development needs are not best served by foreign investment or opening foreign trade, but by developing Africa's own savings through local market activity (Legum, 2003:2).

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