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HOW CAN NAMIBIA FURTHER BENEFIT FROM AGOA?

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EXECUTIVE SUMMARY

The paper attempts to evaluate how trade benefits obtainable from African Growth and Opportunity Act (AGOA) could further be enhanced. It identifies existing and potential export products that are exported to the United States. Further, it identifies constraints within AGOA and suggests strategies that could be helpful to Namibia in facilitating and increasing exports through AGOA.

1. AGOA is a non-negotiable unilateral arrangement initiated by the United States with a view to benefit eligible Sub-Saharan African countries. Its objective is to encourage trade and investment between the United States and African nations through the reduction of tariff and non-tariff barriers. This is done through enabling qualifying African countries to have tariff-free access to the United States market.

2. The AGOA arrangement presents challenges that involve the elimination of barriers to U.S trade and investment, establishment of market economy and the rule of law, adoption of policies geared towards poverty reduction, protection of human rights, suppression of corruption, and protection of intellectual property rights.

3. AGOA presents the constraints of being a unilateral, vague, asymmetric, and impose strict sanitary and phytosanitary requirements. Being unilateral, it is not a negotiated trade agreement between African nations and the United States and hence it may be risky for beneficiary countries because the preferential market access can be terminated unilaterally. AGOA is temporary and does not provide long term secure market for trade and investment. AGOA remains vague because it does not state how its intended free trade zones with beneeficiary Sub-Saharan African countries would be established, nor does it spell out any time frame for doing so. The approach used by AGOA reflects a paternalistic approach which differs significantly from the approach adopted in other arrangements, in which matters at hand are dealt with by means of dispute resolution mechanisms.

4. AGOA I allows duty-and quota-free market access for all products as long as they are produced in and/ or imported from beneficiary African countries. AGOA II provides clarification that preferential treatment is given to wholly assembled apparel articles from the United States and beneficiary African countries. AGOA III extends the original date of expiry of the Act from 2008 to 2015. The loss of preferences in the European markets recently also provides an opportunity for Namibia to consider the US under AGOA as an alternative export market.

5. Evidence from the export trend of selected African countries' export performance to the US under AGOA show that oil accounts for more than half of total exports from 2002 to 2004, while non-oil exports account for less than half of total export during the same period.

6. The end of the WTO Agreement on Textile and Clothing in January 2005, brought challenges of job losses in Lesotho, Kenya, Namibia, Madagascar and Swaziland. The closure of textile plants due to relocation and lack of orders from the U.S companies resulted in these job losses.

7. Namibia's main exports to the U.S includes energy related products, minerals and base metals, and textiles and apparel. Of these products, the export of minerals, metals, textiles and apparel have been increasing since 2002.

8. Namibia benefits from AGOA in various ways:

- The arrangement helps to increase Namibia's exports to the US,
- Namibia was granted a status to benefit from the textile provision meant for lesser developing African countries,

- It has created employment of over 6000 jobs, and
- It has created infrastructure, especially for the textile and garment industry.

9. AGOA presents challenges, especially, with regard to the elimination of corruption. To address these challenges, Namibia established the relevant structure such as the anti-corruption commission and other bodies that would effectively deal with these challenges. It is caution that the full functioning of the commission is still far from realisation.

10. The findings based on the revealed comparative advantage show that Namibia has comparative advantage in the production of the following products: cotton seed, hides, karakul pelts, raisins, beer, grapes, fish, meat of cattle, wool, eggs in shell (ostrich) and processed and canned fish. However, some of these products such as beer and wool are not on the AGOA list of eligible products.

11. The list of criteria for comparative advantage identified the availability of following infrastructures: physical infrastructure, natural resource endowment, investment regime and availability of raw materials. These infrastructures and resources are necessary to facilitate the production of products for exports to any market in the world.

12. On the basis of the defined comparative advantage criteria the study has identified the following products for exporting under AGOA: high value crops, wine, grapes, leather products, process marble products, kudu gas and semi precious stones.

13. The paper recommends that the government should continue to promote investment in the textile/ garment and mining/base metals industries because currently, these seems to be the most viable option to further increase benefits from AGOA. However, the promotion of investment in the textile/ garment sector should be approached with caution, taking into account recent global events that could affect this sector.

14. The paper further recommends that the government should work out a programme that would lead to Namibia meeting the US plant and animal health requirements in order to facilitate benefits from the export of agricultural products. In this regard, Namibia could borrow a leaf from South Africa which made resources available by retaining the services of a US consultant to assist with work toward meeting the US sanitary and phytosanitary requirements.

15. It is also recommended that the recently established Trade Forum should play a key role in raising awareness and encouraging investment towards the production and export of products such as cotton seed, hides, karakul pelts, raisins, beer, fish, meat of cattle and wool. Because the country has a comparative advantage in these product as shown by the revealed comparative advantage technique. It will be also of great importance for the government to promote its EPZ regime together with these products as this might lure more investors.

16. Based on the defined comparative advantage criteria, the paper further recommends that both the Ministries of Agriculture, Water and Forestry and Trade and Industry should encourage value addition and export of products such as high value crops, wine, grapes, leather products, process marble products, gas and semi precious stones.

1. INTRODUCTION

AGOA, the African Growth and Opportunity Act, is the name given to Title I (section 1) of the United States Trade and Development Act of 2000. This Act was signed into law by President Bill Clinton on 18 May 2000 and became effective in January 2001. AGOA is a unilateral trade arrangement initiated by the United States to benefit Sub-Saharan African countries. The objective of AGOA is to encourage trade and investment between the United States and Sub-Saharan African (SSA) countries through the reduction of tariff and non-tariff barriers. It offers potential of tariff-free access to the US market for imports from 37 eligible beneficiary Sub-Saharan African countries[1] . The original AGOA was expanded in 2002 to enhance the benefits for textiles and apparel.

AGOA builds on existing United States trade programmes by expanding the duty-free benefits previously available only under the Generalised System of Preferences (GSP) programme. Duty-free access to the United States market under the combined AGOA/GSP programme now stands at approximately 6,400 product tariff lines, including the roughly 1,800 product tariff lines that were added to the GSP by the AGOA legislation. Notably, these include items such as apparel and footwear, wine, certain motor vehicle components, a variety of agricultural products, chemicals, steel and so forth. The Act as amended (by AGOA III) extends the GSP status for qualifying SSA countries from September 2008 to 2015. At the same time, a special dispensation[2] relating to apparel was extended by three years to 2007.

Namibia qualified for the 'Wearing Apparel' provisions of AGOA on December 3, 2001; although the country's fledgling textile and garment manufacturing industry is yet to fully exploit the opportunity hereunder. The benefits of this wearing apparel include for example, allowing the country to be classified as less developed in order to use third country inputs in the manufacture of AGOA eligible clothing. As recently as 2002, Namibia was re-classified as a 'lesser developed country under "AGOA II", thereby extending AGOA's textile sourcing provisions to this country. This means that Namibia can source inputs for manufacturing of textiles from any country in the world as long as the less developed status accorded to it is still valid.

There is growing recognition that any significant investment in the manufacturing sector must be export oriented to create employment possibilities. It is in this context that Namibia was well prepared to take advantage of the opportunity to host the huge AGOA-oriented investment established by the Ramatex.

While it is true that a significant number of jobs have been created and trade opportunity opened within the United States market for Namibian made garment and textile, it is still believed that AGOA opportunities has not been fully exploited, because so far the benefits obtained are from mainly one sector, namely, textile. The other sectors such as mining were already beneficiary of the US market through the GSP. Hence, it is not easy to determine the additional jobs in these sectors that were created as a result of AGOA.

The main purpose of the study is, therefore to analyse the benefits offered by AGOA and identify existing and potential export products that could be exported to the United States through AGOA. The paper further aims to identify the constraints within AGOA and the Namibian economy with a view to suggesting strategies to encourage the private sector to increase exports to the United States. The remainder of the paper is organized as follows: Section two explains what AGOA is, its challenges, constraints and opportunities. Section three looks at the African exports performance. Section four presents the Namibian experience with AGOA. Section five provides the conclusion and policy recommendations.

1 AGOA has identified 48 countries in its definition of Sub-Saharan Africa, but only 37 of those are eligible for benefits.

2 This means that the preferential treatment i.e. the sourcing of input from third countries for apparel accorded to less developed countries under AGOA in which Namibia is included ends in 2007 and not in 2015 as the overall AGOA programme.

2. AFRICA GROWTH AND OPPORTUNITY ACT (AGOA)

2.1 WHAT IS AGOA?

AGOA aims towards the expansion of United States assistance for regional integration, negotiation of mutually beneficial and reciprocal trade agreements, promotion of private sector engagement and democratization in Sub-Saharan Africa. The theoretical rationale behind AGOA is that the benefits of globalization will stimulate lagging economic growth in Sub-Saharan Africa. In practical terms, the hope is that quota and duty-free access to US markets will bring an increase in African trade and that the increased trade will spur wider, economic activity. Since its inception, AGOA claims to “move Africans from poverty to prosperity by increasing their economic opportunities” (Stern and Netshitomboni, 2001).

The specific intent of AGOA is to broaden the trade preferences available for SSA exports to the US in the context of the US Trade Act of 1974. This is the law which gives the US President extensive decision-making authority with respect to international trade. AGOA is an extension of the GSP, the preferential scheme authorized by the Trade Act of 1974. Under this scheme, some products of some countries can be imported into the US duty-free. Eligibility criteria for AGOA and GSP overlap substantially; in fact GSP eligibility is a requirement of AGOA eligibility.

2.2. CHALLENGES

There are certain conditionalities imposed by AGOA that must be satisfied for a country to be declared AGOA eligible in accordance with Section 4 of the AGOA Act:

- Establishment of a market based economy and the rule of law;
- Elimination of barriers to US trade and investment;
- Adoption of policies that promote poverty reduction and other social and economic goods;
- Protection of intellectual property
- Suppression of corruption;
- Protection of human rights and worker rights including elimination of certain child labour practices.

Additionally, AGOA beneficiaries must agree to refrain from engaging in activities detrimental to US security and foreign policy interests, from violating human rights and from supporting international terrorism. If these conditionalities are not satisfied, eligibility for AGOA will be terminated.

Another important challenge to eligible Sub-Saharan African countries is the sustainability of AGOA. AGOA is not a sustainable trade arrangement because it is temporary. The arrangement has also not been notified to the WTO and therefore not compatible with WTO provisions.

2.3 CONSTRAINTS

(a) Unilateralism

AGOA reflects a paternalistic approach which differs markedly from the approach adopted in other arrangements, in terms of which matters at hand are typically dealt with by means of multilateral regulatory agencies, underpinned by dispute resolution mechanisms. AGOA is not a bilateral or multilateral trade agreement. It is not a negotiated trade agreement between Sub-Saharan African countries and the United States. The arrangement is temporal in nature and the US reserves the right to stop it if it deems necessary. In this regard AGOA may be a risky arrangement for the beneficiaries because it is unilateral and is conditional upon adherence to the principles of democracy, good governance and free market as mentioned above. In the event that a beneficiary country did not appear to adhere to these principles, the US could take a unilateral action to terminate its preferential market access. Products that are regarded as sensitive or may cause disruption in the US market have been excluded from being eligible.

(b) Vague

AGOA could improve trade between Africa and the US, thus modestly enhancing Africa's reintegration into the world economy. Section 116 of the AGOA Act, which deals with the establishment of free trade arrangements with the different regional blocs in Africa remains a vague goal, stated only on paper. AGOA does not spell out any time frames when negotiations for the free trade areas will start and when they will end. Despite this, SACU is currently negotiating a free trade agreement with the United States. These negotiations started as an initiative between South Africa and the United States to have a bilateral free trade agreement similar to the European Union/South Africa free trade agreement. Other SACU member states became parties to these negotiations after complaining to South Africa for engaging the US without the consent of the rest of SACU member states. Once the negotiations are completed, the free trade area will be used as the basis to continue trade relations between SACU and the US after the expiry of AGOA.

(c) Sanitary and phytosanitary

The main constraint for some of the developing countries' agricultural products is entrance into the United States' market. The phytosanitary system requires that these products should undergo pest risk assessments to determine their safety before permitting them to enter the United States. In this regard, the eligible country is required to come up with the list of pests that are found in the country, including the new one that are being discovered through research. In particular, the US is concerned with those pests that can hitch-hike in boxes when products such as grapes or bananas are exported. Meat products for example, exported from another country must meet all safety standards applied to foods produced in the United States. The United States makes determinations by evaluating whether foreign food regulatory systems attain the appropriate level of protection provided by the US domestic system.

Thus, while foreign food regulatory systems need not be identical to the U.S. system, they must employ equivalent sanitary and phytosanitary measures that provide the same level of protection against food hazards as is achieved domestically (US).The inspection process is done through document reviews, on-site audits, and port-of-entry re-inspection of products at the time of importation which is undertaken by the U.S. phytosanitary and sanitary agencies to ensure the safety of the products entering the U.S. market. Once it is established that the principle of equivalence is present between two trading partners, the need for re-inspection and re-testing of products should be obviated. Whether that happens or not in practice, is another issue.

The technical assistance for eligible countries to meet these requirements is provided for in the AGOA legislation. However, the process that leads to approval and acquiring the necessary certification is too bureaucratic and cumbersome. South Africa for example did not go through this process that takes too long. Instead they employed consultants from the relevant US agencies that assisted them to qualify and obtain the necessary certification in order to export agricultural products under AGOA.

(d) Asymmetric

AGOA provides U.S corporations with unhindered access to African markets, because the Act requires eligible countries to remove all trade barriers to US trade and investment, whereas fledgling African companies are not well equipped to take advantage of new opportunities offered by AGOA. What AGOA has done was to use the eligibility criteria to provide market opportunities to eligible products from eligible SSA countries. That is not to deny that there have been significant benefits for countries like Lesotho, Malawi, Madagascar, to some degree, but there are some serious problems with product coverage.

2.4 OPPORTUNITIES

(a) AGOA I

This section covers the provision of AGOA I, AGOA II and AGOA III. In general, it seems that most of AGOA's opportunities for non-oil producing African countries are in the clothing and textiles sector, with few new opportunities for other manufactured exports. Since its implementation, AGOA has encouraged substantial new investments, trade, and job creation in Africa. It has helped to promote Sub-Saharan Africa's integration into the multilateral trading system and play a more active role in global trade negotiations. It has also contributed to economic and commercial reforms which make African countries more attractive commercial partners for U.S. companies.

More specifically, AGOA I provides, among other items, preferential access to the US market for eligible products (more than 1800 tariff lines) from designated Sub-Saharan African countries as well as improved access to credit and technical expertise[3]. AGOA I allow duty-and quota-free market access for eligible products as long as they are produced in and/or imported from a beneficiary Sub-Saharan African countries. Section 112 of the AGOA states that preferential treatment for textile and apparel articles that are imported directly into the customs territory of the United States from a beneficiary Sub-Saharan African country shall enter the United States free of duty and free of quantitative limitations.

Section 3108 of AGOA grants market access trade benefits to products from beneficiary African countries. These products include agricultural commodities, in particular food items (more than 600 tariff lines), petroleum products (20 tariff lines), mineral and manufacturing (more than 700 tariff lines), and apparel and footwear. Agricultural commodities include fresh cut rose, citrus products and vegetables, to mention just a few. Non-agricultural products can be grouped into apparel, footwear, handbags, gloves, luggage, trunks and watches.

(b) AGOA II

AGOA II serves as an improvement to AGOA I. To this effect, AGOA II is not a separate Act, instead it is an amendment to AGOA I. The provisions of these amendments are more specific to the textile and apparel sector, which were not properly covered by the provisions of AGOA I. In this regard, AGOA II (section 3108(3)) is meant to clarify that preferential treatment is provided to 'wholly assembled' apparel articles from the US or from the SSA beneficiary country. These (AGOA II) provisions make eligible for preferences so-called 'hybrid' apparel articles. This means apparel articles containing components of fabric and knit to shape from both the U.S. and Sub-Saharan African beneficiaries.

3. Further details of the AGOA programme are available at the AGOA web site, http://www.agoa.gov.

AGOA II further, increases the apparel cap for apparel made in Africa from regional fabric made with regional yarn from 3 per cent to 7 per cent. This means that AGOA limits imports of apparel made with regional or third country fabric to a fixed percentage of the aggregate square meter equivalents of all apparel articles imported into the US, but this does not apply to less developed countries.

(c) AGOA III

Certain provisions of AGOA Act were modified in 2004. These modifications are now collectively referred to as AGOA III. The requirements of AGOA III extend the Act's original date of expiry from 2008 to 2015. AGOA III further extends third country fabric provision for three years, from September 2004 until September 2007, subject to certain conditions. These conditions include, firstly, quantitative restriction (the quota cap) based on a percentage of the previous year's total imports of apparel into the US, continue to apply. This cap would remain at full the level available in years one and two of imports. Secondly, the quota cap would be phased down by 50 per cent in the third year, (September 2006 – September 2007).

AGOA III expands current eligibility to allow non-AGOA produced collars, cuffs, drawstrings, padding/shoulder pads, waistbands, belts attached to garments, straps with elastic, and elbow patches for all import categories to be qualified. AGOA III provisions increases the De Minimis Rule from its current level of 7 per cent to 10 per cent. This rule states that apparel products assembled in Sub-Saharan Africa which would otherwise be considered eligible for AGOA benefits but because of the presence of fibres, yarn not wholly formed in the U.S./Africa will still be eligible for benefits[4].

Other provisions of AGOA III relate to technical assistance for Africa, and are aimed at assisting African producers especially with issues relating to compliance with the U.S agricultural standards. AGOA III coverage also includes ethnic printed fabric made in Africa or the U.S The provisions of this Act also support bilateral investments. In addition, AGOA III promotes investment in infrastructure projects that support the development of land transport, roads, railways, ports, the expansion of modern information and communication technologies, and agriculture. These investments in infrastructure is done through project financing, private equity fund investment programmes and political risk assurance services.

(d) Loss of preferences in the European markets

The European market has been Namibia's main traditional export market. However, recently Namibian export products have not been receiving favourable preferential access in this market. This is mainly due to the fact that Namibia has already optimally exploited potential within these markets and hence the loss of preferences. Thus it is imperative for Namibia to diversify its exports from the European market and identify other potential markets in the world. It is against this background that the US market under AGOA becomes an opportunity worth exploring if further benefits can be derived.

4 It is required that the total weight of all such fibers and yarns should not be more than 7 per cent of the total weight of the article.

3. AFRICAN EXPORTS PERFORMANCE UNDER AGOA

(a) Export trend

Most of Africa's exports are natural resources and primary commodities: oil from Nigeria and Angola, gold and gems from Southern Africa, chocolate from West Africa, spices from the Indian Ocean states, and so on. Such products can bring in lots of money, but are less effective as job sources; and heavy dependence on them means economic volatility as the price of cocoa or crude oil bounces up and down from one year to the next. AGOA is a unique effort to help African economies to diversify, integrate, and create jobs.

It is widely expected that SSA exports to the U.S under AGOA would continue to grow significantly. These exports recorded growth of 39.0 per cent or US$17.0 billion in 2002. In 2003 and 2004 exports continued to grow and stood at US$23.9 billion and US$33.6 billion respectively. Of these figures, non-oil exports from the continent grew at a mere 0.6 per cent per annum, consistent with notion of Africa's marginalization from global trade (Subramanian and Tamirisa, 2001).

Table 1 below shows how selected qualifying Africa countries contributed to these export performance. As shown in Table 1 Nigeria has performed well from 2002 (US$5.9 billion) to 2004 where its total export value amounts to US$16.2 billion. The good performance of Nigeria’s export contribution could be attributed mainly to oil exports. The second good performance in terms of exports to the US under AGOA came from South Africa. South African exports include agricultural products, motor cars, ferromanganese, textile and apparel. South Africa’s total export value was US$4.0 billion in 2002 and stood at US$5.9 billion in 2004.

The third best export performance came from Angola with export value of US$3.2 billion and US$4.5 billion in 2002 and 2004, respectively. As in the case of Nigeria, Angola’s better export performance was the result oil export. The fourth best performing country is Gabon with export value of US$1.6 billion in 2002 and US$2.5 billion in 2004. Again, this better performance by Gabon is largely attributed to crude oil export. The performance posed by non-oil exporting countries is attributed to the export of textiles and garments.

Table 1. Export performance of selected African countries under AGOA

	Export value in US$ million		
Country	**2002**	**2003**	**2004**
Angola	3,231	4,176	4,476
Botswana	29.3	13.7	73
Cameroon	172.2	214	270
Namibia	57.5	123.2	238.3
Kenya	188.6	249.3	352.2
Nigeria	5,945	10,394	16,246
South Africa	4,034	4,634	5,944
Gabon	1,592	1,970	2,467
Mauritius	280.7	279.9	270.4
Ghana	116.4	81.9	145.5
Total	**15,366**	**22,136**	**30,482.4**

Source: US International Trade Commission

SSA's exports remain predominantly agriculture and natural resource-based. Oil accounts for close to 50 per cent of exports under AGOA, while agriculture and other commodities account for about 36 per cent, and manufacturing for a meagre 12 per cent. Clothing, a key sector under AGOA, has been one of the most dynamic, growing at a rate of close to 7 per cent per annum. However, this growth was not significant to change the composition of total exports.

AGOA is contributing to positive change in the economic landscape of SSA. In five countries, namely, Lesotho, Kenya, Namibia, Swaziland and Uganda, AGOA have been credited for creating nearly 200,000 jobs. Some of these jobs have since been lost due to a number of plant closures in Lesotho, Kenya and Namibia. The plant closures are attributed to the removal of textile and clothing quota by the WTO. AGOA related exports of African textiles and apparel increased by US$148.4 million (40.7 per cent) in 2002. Africa's share of the U.S market in textile and apparel, however, remains small, constituting just 2.1 per cent of the U.S apparel import market.

(b) Challenges

The WTO Agreement on Textiles and Clothing quota ended effective January 2005. This Agreement was about the imposition of quota restrictions on the exports of low cost textile producing countries, viz, China, India etc, which has been in existence for the past fourty years. Many analysts have predicted that Africa will lose jobs and market share in a post-quota world. This prediction became true in the case of some African countries. In Lesotho alone, more than 22 000 textile workers lost their jobs as the global corporations relocated production. Likewise, Kenya is estimated to have lost about 20 000 textile jobs. The textile plant closures also caused thousands of job loses in Namibia, Madagascar and Swaziland. The outlook in the African, European and US textile and garment sector became worrying since the end of the 40-year-old quota system. The end of quota system has reduced tight limits on imports from China, India, Vietnam, and other big Asian textile and garment producing countries.

The above situation is particularly true in view of the fact that surging competition from China and other Asian low-cost producing countries could result in lower sales to the US market because consumers may shift to buy cheap textiles from China and hence could affect negatively the AGOA arrangement. China offers 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. It also offers extremely fast manufacturing and transportation times, cheap electricity and has reached high levels of productivity. This means that even the extremely low-wage Asian countries like Bangladesh, Indonesia and Pakistan cannot compete with China in the race for foreign investment. In the EU, it is also feared that Chinese textiles in particular, would lead to the closure of some textile factories and causes job losses. China's export of clothing and textiles products to the United States increased significantly in 2005 following the end of the global quota system. That prompted the U.S textile producers to seek protection under a 'safeguard' provision of China's 2001 entry into the WTO. The measure allows the WTO members to restrict the growth in imports from China to 7.5 percent annually when there is a market-disrupting surge.

In the longer term, uncertainty also lies with the end of the third-country fabric provision that allows apparel from AGOA countries to take advantage of duty-free access to the United States although made from Asian yarns and fabrics. This provision will expire on 30 September 2007, as already mentioned in 2.4 above is accused of limiting investment in textile capacities in the region. Although textile capacities should be expanded in most countries in Africa, local plants will never replace Asian mills with their extremely wide range of fabrics on offer. African countries will clearly need a new extension of the third-country fabric provision, because the mandatory use of U.S fabrics and limited regional (African) fabric as inputs raises SSA production costs, hence reducing the benefit of the AGOA preferences.

In order for African exports to compete in the post-quota period, it is suggested to follow the Mauritian example of a smart strategy. Mauritius was not granted the third-country fabric provision when AGOA was implemented, since not considered a very poor country. Mauritian exporters were therefore forced to develop niche products to limit the decline in their sales to the US market. They took advantage of short-supply provisions that allow using Asian fabrics if such materials are not available in commercial quantities in the United States or in AGOA eligible countries. That was the case for certain high quality fabrics used in men and boys shirts. In the end, Mauritius got the benefit of the third-country fabric provision for the current AGOA.

4. NAMIBIA'S EXPERIENCE WITH AGOA

4.1 INTRODUCTION

The study used a qualitative method which involves the export basket assessment to evaluate the export performance under AGOA and determine the potential of export products. The results of the revealed comparative advantage used by Zaaruka and Namakalu are also used to identify the products in which the country has a comparative advantage in the current export base. Further, it develops a criteria which determines the comparative advantage of Namibia in producing and exporting new products identified by this criterion[5] .

4.2 NAMIBIA'S SECTORAL EXPORTS UNDER AGOA

The Namibian sectors that are involved currently in exports to the U.S under the AGOA arrangement are the following: 'forest products', 'chemicals and related products'[6], 'energy related products ', 'fisheries', 'textiles and apparel', 'minerals and metals', 'machinery', 'transportation equipment', 'electronic products', 'miscellaneous manufactures' and 'special provisions'. Namibia's exports were further enhanced by AGOA II which allows Namibia to benefit from the 'lesser developed beneficiary Sub-Saharan African country' provision. This afforded the Namibian producers opportunities to use third country fabric in qualifying apparel until September 2007.

Namibian exports to the U.S in 2002 by product sector as shown in Table 2 was dominated by 'energy-related products. This category of energy related products consists mainly of natural uranium compounds. Table 2, further shows that the second largest export sectors to the US in 2002 consist of 'minerals and metals', 'textiles and apparel'. However, the trend has changed since 2003 to 2004 when minerals and metal exports to the U.S has increased, followed by textiles and energy related products. Of significance is the fact that Namibia's exports of textiles and apparel have increased significantly from US$6.7 million in 2002 to US$41.9 million in 2003 and US$78.8 million in 2004. Most of these textiles qualified under AGOA. Total exports of all product sectors have also increased from US$57.3 million in 2002 to US$123.2 million in 2003 and US$238.2 million in 2004.

Table 2. Namibia's exports to the U.S under AGOA

	Value (US$ '000)		
Exports by product Sectors	**2002**	**2003**	**2004**
Forest products	189	155	125
Fisheries	6,456	10,043	8,072
Chemicals and related products	1	748	350
Energy-related products (natural uranium compounds)	30,694	18,349	27,851
Textiles and apparel	6,713	41,972	78,839
Minerals and metals	11,344	49,639	117,922
Miscellaneous manufactures	71	112	55
Special provisions (exports)	1,775	2,211	4,872
Machinery	79	8	77
Electronic products	27	12	57
Transportation equipment	6	0	0
Total	**57,355**	**123,249**	**238,220**

Source: US Department of Commerce.

5 This criteria is described in section 4.4.
6 It refers to natural uranium compounds.

Table 2 above provides disaggregated trade data (export data) for Namibian products to the U.S market under AGOA over the past three years. The trade data is grouped according to the product sectors as indicated in Table 2. Some of these sectors will be discussed briefly.

Textiles and apparel sector: The Government of Namibia successfully dealt with the administrative issue of establishing a visa system, as required under AGOA, for textile and apparel exports. Beneficiary countries including Namibia must meet certain customs-related criteria to receive AGOA textile and apparel benefits. These requirements are intended to ensure that unlawful transhipment does not occur and that AGOA benefits accrue only to beneficiary countries. AGOA accordingly requires that beneficiary countries implement an effective visa system and have laws, regulations or administrative procedures in place to prevent transhipment and use of counterfeit documents. This includes the requirement that the original commercial invoices for each shipment be stamped with an official government visa.

The speedy finalisation of this process by Namibia was especially important in view of the "multi-million dollar investments by the Ramatex and Rhino companies. The completion of the product visa system was cited as one of the main reasons that contributed to Namibia’s increased export of textiles and apparel. The textile and apparel sector is Namibia’s second largest export sector with the export value to the US market through the AGOA arrangement amounting to US$78.8 million in 2004 (see Table 2). This represents about one third of Namibia’s total exports to the U.S in 2004. While it is suggested for the government to continue promoting investment in the textile and apparel sector based on the benefits accrued so far, it is urged that such promotion should be approached with caution, taking into account the global events such as the end of the global textile quota system and the expected competition from China in the US market. A concern has been raised in Namibia, particularly for the textile industry that if the AGOA arrangement comes to an end, there has not been enough transfer of skills. Most of the skilled personnel at Ramatex and its subsidiaries came from Asia and Namibian employees are not trained to take over when the Asians leave.

Apart from the lack of skills as mentioned above, it might also be important to note that there is a worrying low level of productivity among the Namibia Ramatex staff which requires immediate attitudinal change if the investment in that enterprise can be saved.

Qualifying textile and apparel articles from Namibia include:

- Apparel made of U.S. yarns and fabrics;
- Apparel made of Sub-Saharan African (regional) yarns and fabrics, subject to a cap;
- Apparel made in a designated lesser-developed country of third-country yarns and fabrics, subject to a cap;
- Apparel made of yarns and fabrics not produced in commercial quantities in the United States;
- Eligible handloomed, handmade, or folklore articles; and ethnic fabrics.

Minerals and metals: Namibia is a minerals-rich country and mining plays a significant role in the economy. In fact the Namibian economy is a mineral-based economy. It is therefore not surprising that the minerals and metal sector is the number one exporter to the U.S through AGOA with the export value amounting to US$117.9 million in 2004 (Table 2). This represents about 49.5 per cent of total exports to the U.S under AGOA in 2004. Namibia export primarily stones, minerals and metals, and it has some vertical and horizontal integration of mining into the secondary sector. Since the start of the AGOA initiative in 2001, the U.S has become an increasingly attractive export destination for Namibia, especially for the minerals and metals sector.

Apart from minerals and base metals, the third largest export sector under AGOA is the energy related sector. This sector export natural uranium compound to the U.S amounting to the value of US$27.8 million in 2004 (Table 2).This represents about 11.7 per cent of Namibia's total exports to the U.S in 2004.

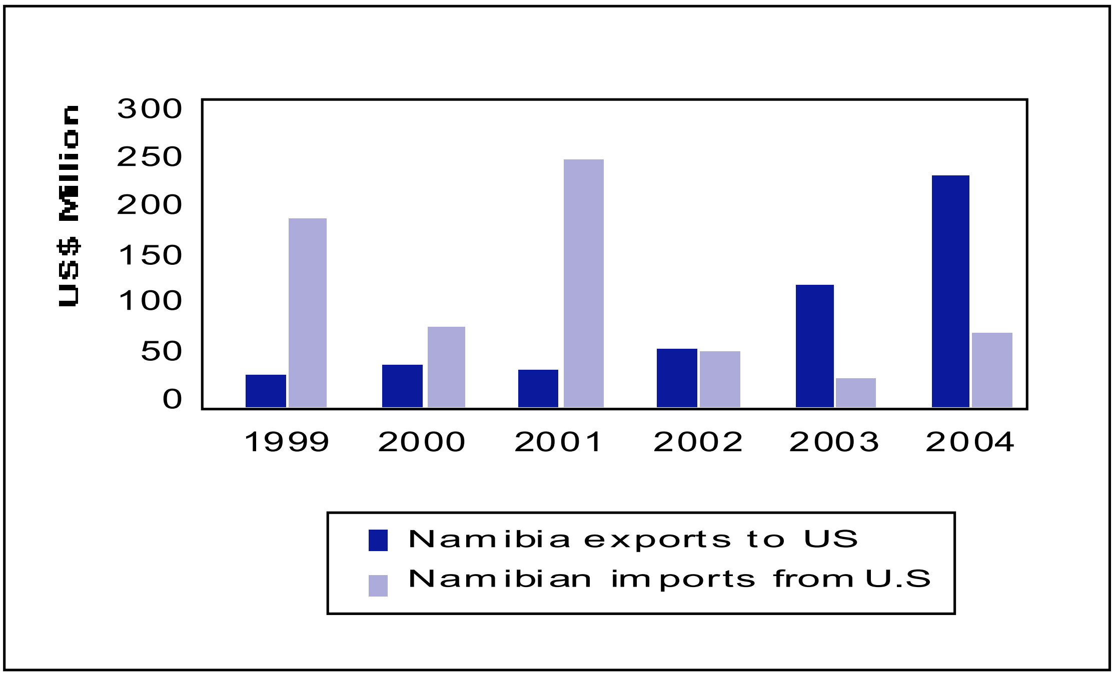
Other sectors, account for the remaining 5.7 per cent of total exports through AGOA in 2004. This small contribution may be an indication that these sectors potentials have not been fully exploited to take advantage of AGOA and make a significant contribution to Namibia's total exports to the U.S through this programme.

4.3 ASSESSMENT OF THE BENEFITS OFFERED BY AGOA

In evaluating the benefits accruing under AGOA, it is important to consider not just the import coverage but the magnitude of current trade restrictions. Namibia benefits from AGOA in three ways. Firstly, the arrangement helps to increase the country's exports to the U.S. from US$45 million in 2000 to US$238.3 million in 2004. Secondly, AGOA has created employment of more than 6000 jobs. Thirdly, it has created infrastructure, especially for the textile and garment industry as mentioned above. As shown in Chart 1, before the AGOA initiative in 1999, Namibia's exports to the U.S accounts for a mere US$29.7 million. When Namibia became an AGOA beneficiary at its inception in 2000, its exports value to the U.S increased to US$45 million. In 2001 Namibia qualified for weaving apparel benefits and by 2002 the country's AGOA exports were valued at US$57.6 million. The value of textile and apparel products exported accounted for US$ 78.8 million in 2004.

Namibia has been the beneficiary of significant AGOA-related investment. The Ramatex firm invested over US$200 million in a textile and garment-manufacturing plant. These investments have boosted total Namibian exports to the US from US$123.2 million in 2003 to US$238.3 million in 2004 (Chart 1). In comparison, Chart 1 shows that during 1999 to 2001, imports from the U.S dominated trade between the two countries, reaching a total value imported of US$255.6 million in 2001. This trend of imports has been turned around as AGOA becomes more and more beneficial to Namibia as presented in Chart 1 from 2003 to 2004 when exports from Namibia dominate trade.

Chart 1 Bilateral trade between Namibia and USA under AGOA



Source: United States Trade Representative

The increase in Namibia's exports to the U.S as shown in Chart 1 is an indication that AGOA is beneficial to the country. However, AGOA's benefits to Namibia might be small at this stage. In this regard, there is still a need for Namibia to explore opportunities available that would lead to further the benefits from AGOA.

The challenge facing Namibia is with regard the elimination of barriers to U.S trade and investment. Being a member of the WTO, the most favoured nation principle applies to Namibian with regards to tariff reduction. The most favoured nation clause binds member states including Namibia that if it reduces the tariff to one trading partner (U.S), this reduction should be applicable to all WTO members.

Another challenge is that of the sustainability of AGOA. AGOA is not a sustainable trade arrangement because it is temporary in nature. Its duration is up to 2015. In this regard, as a beneficiary, Namibia should maximise its benefits from the AGOA arrangement before its life span comes to an end. Despite this, AGOA can still be used as stepping stone through which Namibia could build a foundation for export diversification.

4.4 THE POTENTIAL FOR NAMIBIA IN AGOA

This section looks at ways on how Namibia could exploits further benefit of AGOA by identifying the potential products from the existing export basket and suggests new products that can be produced and exported under this arrangement. This implies that products identified as having potential under AGOA should equally be exportable to any other traditional markets if AGOA comes to an end.

In identifying products that have potential to export under AGOA, two techniques are used. The first one looks at products in which Namibia has comparative advantage in exporting. The technique used here is called the Revealed Comparative Advantage (RCA). This is measured by the share of a given product in a country's total exports relative to the good's share in total world exports. The high ratio of the RCA indicates that Namibian exports of the products concerned are competitive relative to the world export of the same products, and vice versa.

The second approach used is to define a list of comparative advantage criteria for Namibia. Subsequently, based on these criteria, products will be identified for which Namibia has a comparative advantage in producing and exporting to the US. It goes without saying that these products should be on the AGOA list of eligible products. In addition, as explained earlier these products should also be exportable to any other traditional market if AGOA comes to an end.

(a) The findings of the revealed comparative advantage

This technique, as cited above measures comparative advantage by the share of a given product in a country's total exports relative to the good's share in total world export. The study on "Potential for Diversifying Namibia's Non-Mineral Exports to Non-Traditional Markets by Zaaruka and Namakalu (2002) which calculated the RCA revealed that by 1998 Namibia had comparative advantage in the following non-mineral products: Cotton seed, hide, karakul pelts, raisins, beer, grapes, fish, meat of cattle, wool, eggs in shell (ostrich) and processed and canned fish.

This current study also used this RCA technique based on the 2002 data and the findings are more or less the same with that of the study by Namakalu and Zaaruka which used the 1998 data. In all the above mentioned products, if the RCA is greater than 1 it shows that the country has comparative advantage. However, in the products where the RCA is less than 1 it shows that the country has comparative disadvantage.

It is worth to note that some of the products identified by this study to have comparative advantage are not on the AGOA list of eligible products i.e. beer and wool. Still other products such as eggs in shell (ostrich) were found not to be viable for export. Simply because ever since the Americans imported these eggs in shell from Namibia, they hatched them and do not need to import eggs any more because their birds that were hatched are now producing eggs.

Furthermore, Zaaruka and Namakalu attempted to identify other important products for which Namibia does not have any or adequate trade data to estimate the revealed comparative advantage index. These products include vegetables, fruits and other food products, metals, gas, cement, cutlery steal and copper nails, metal tanks. The outcome of this attempt shows that there is consensus on the viability of most of these products. Value addition to these products is encouraged to increase export earnings.

(b) List of criteria for comparative advantage

In this section a list of criteria are defined in which Namibia has a comparative advantage in producing and exporting certain products to AGOA. This is followed by the identification of products that could be produced and exported to the US based on these criteria.

(i) Physical infrastructure

Namibia is one of the few African countries with excellent transport (rail, road, air, sea, port) and communications infrastructure. In addition, utilities and services such as water and electricity are provided efficiently at competitive rates. Furthermore, a full range of business support services are available in Namibia including banking and finance, insurance, stock broking, accountancy, general business consultancy, advertising and marketing agencies and conference facilities. These infrastructures would be very useful and could facilitate in the production of a number of products.

(ii) Natural resource endowment

Namibia is a mineral rich and producing country that can probably be more efficiently exploited by adding more value locally before exporting to foreign markets. It has extensive mineral deposits and its diamond and uranium are of world class. There are also valuable occurrences of gold, copper, lead, zinc and other base metal, a wide variety of semiprecious stones and several types of dimension stone, as well as salt and fluorspar. These minerals and metals could form core of resource based industrialization if value-addition take place.

(iii) Investment Regime

The Namibian government continues to ensure an attractive enabling environment for investors based on appropriate fiscal stability and the introduction of favourable tax and other incentives. At the centre of this strategy is the Foreign Investments Act of 1990, while an Investment Centre was established within the Ministry of Trade and Industry to provide the necessary information and assistance services to potential investors. Certain incentives regimes are designed to give competitive edge to Namibian-based entrepreneurs who invest in manufacturing and re-export trade. These tax and non-tax incentives are accessible to both existing and new manufacturers.

(iv) Availability of raw material

Namibia is a country that exports a lot of its products in raw form. This implies that there is large scope for value-addition by using the raw material exported. These raw materials can be used as an input into the production of some finished products. A case in point is the export of live animals to South Africa, grapes to EU, minerals etc. This availability of raw material could create many value-addition opportunities for unprocessed products that could be exported at a significantly higher value.

(c) List of products

Based on the above defined comparative advantage criteria the study has identified the following products for exporting to AGOA: high value crops, wine, grapes, leather products, process marble products, gas and semi precious stones.

(i) Agricultural products

It is fairly logical that most of the products identified in this study are coming from the agricultural sector. This is mainly because this sector forms an important part of the economy. In addition, most of the products are also exported in raw form. This implies that there is enough room for value addition in this sector. A case in point is the grape industry that is fairly advanced in terms of output but does not venture into winery. Grape wine are products that could be produced and exported to the US since the raw material is in abundance or the scope for increased production is large and they are also on the AGOA list.

A similar example can be found in the leather industry where there are enough raw materials for the production of handbags, leather shoes, sheep or lamb skin leather. The current export ban for cattle on hoof to South Africa also creates a lot of raw material for leather processing locally. Currently only Nakara is involved in the exporting of finished leather and related products. These are all products on the AGOA list and have a high demand in the US.

A number of opportunities also exist in high value crops with the establishment of the Green scheme project. These are vegetables and fruits that have also been identified in the study by Bernie and Namakalu as products in which Namibia has comparative advantage to export to the US.

(ii) Metal related products

Since Namibia is a mineral rich country there are a number of opportunities for value-addition of certain semi-precious stones. With the recent establishment of the stone processing plant in Omaruru, scope for value-addition became attractive. Products such as polished marble and semi precious stones could be exported comparatively to the US under AGOA.

4.5 SUMMARY

Namibia has benefited from AGOA in terms of the increase in export value to the US market which ranged from US$45 million in 2000 to US$238.2 in 2004. In addition, the arrangement has created employment of more than 6000 jobs. There are four sectors of the Namibian economy that have benefited more from the AGOA arrangement based on the export value. These sectors include fisheries, energy related sector (uranium oxide), textiles/apparel and mining.

In view of the loss of preferences for Namibian export products in the European Union markets, there is a need for export diversification to non traditional markets in the world including export to the US market through AGOA. AGOA is not a sustainable trade arrangement because it is temporary. Further, it has not been notified to the WTO and hence not compatible with WTO provisions. Despite this, AGOA can still be used as stepping stone through which Namibia could build a foundation for export diversification.

There is also a concern, particularly for the textile industry that if AGOA comes to an end, the transfer of skills has not taken place. Most of the skilled personnel in the industry came from Asia and Namibian employees are not trained to take over their places.

Base on the revealed comparative advantage technique, the following products were identified to have comparative advantage: cotton seeds, hides, karakul pelts, raisins, beer, grapes, fish, meat of cattle, processed and canned fish. Value addition to these products and export to any market in the world is critical in order to increase export earnings.

On the basis of the defined comparative advantage technique, the following products were identified for exporting to the US through AGOA: high value crops, wine, grapes, leather products, process marble products, kudu gas and semi precious stones. The production of these products should be completed by value addition to increase benefits from the export market.

5. CONCLUSION AND POLICY RECOMMENDATIONS

5.1 CONCLUSION

The intention of this study was to analyse the benefits presented by AGOA and identify existing and potential products within the Namibian economy that could gain from this arrangement. It also examined the constraints within AGOA and the Namibian economy and suggested strategies to increase exports to the U.S.

Namibia's experience with AGOA so far indicates that there are four sectors of the economy that benefited from this arrangement, notably, energy related sector, fisheries, textile and apparel, minerals and base metals. The establishment of a visa system, complimented by the putting in place of enforcement mechanisms and verification procedures to ensure compliance with the rules of origin proves to be an important policy priority for the textile sector. While minerals/base metals and textile/apparel have seen significant increase in exports to the U.S, agriculture which is one of the key sectors of the economy have not exported any product under AGOA. This sector could hold potential to further improve exports to the US. However, this sector is constrained by the imposition of non-tariff barriers, namely, sanitary and phytosanitary regulations.

The results obtained through the use of revealed comparative advantage technique suggest that Namibia has comparative advantage in the following products, cotton seed, hide, karakul pelts, raisins, beer, grapes, meat of cattle, wool, ostrich eggs and processed and canned fish. The recently established Trade Forum could play a key role in raising awareness and encouraging investment towards the production and export of these products. Some of these products identified to have comparative advantage such as beer, and wool are not on the list of AGOA eligible products. Other products, namely eggs in shell (ostrich) were found not to be viable for export.

On the basis of the defined comparative advantage criteria, the outcome of the study further revealed that Namibia is the country with relatively good infrastructure such as physical infrastructure, natural resource endowment, investment regime and availability of raw materials. These infrastructures are necessary and could play a significant role to facilitate the production of various AGOA eligible products for export to the US. Based on the technique of defined comparative advantage, the paper has identified high value crops, wine, grapes, leather products, process marble products, gas, semi precious stones as products for export under AGOA. However, value addition to these products is required. With the availability of good transport infrastructure such as rail, road, air, sea, port and telecommunication infrastructure, Namibia has a comparative advantage in producing and exporting the above mentioned products. In view of AGOA being unsustainable, the products identified should not only be produce for export to the US market. Instead, such products should able to be exported to any other markets in world if AGOA comes to an end.

5.2 POLICY RECOMMENDATIONS

The study is suggesting the following recommendations:

- The Ministry of Trade and Industry should continue to promote investment in the textile and garment sector, as for now most of the benefits derived by the country in the AGOA arrangement comes from this sector. However, the Ministry should be cautious about the events that are taking place in the textile industry world wide.

- In the same vain, the Ministry of Trade and Industry should promote vigorously the export of value added minerals and base metals to the US, as these products (polished diamonds, zinc, process marble products etc) currently holds significant potentials to increase the exports earnings. The way forward should be the strong promotion of products that already gained access to the American market. Thus, it is recommended that the companies that are cutting and polishing diamonds locally should be encouraged to increase export of their finished products to the US market.

- It is further suggested that the Ministry of Agriculture, Water and Forestry should speed up the technical assistance programme underway in order for Namibia to meet the U.S plant and animal health requirements (sanitary and phytosanitary). In this regard, Namibia could borrow a leaf from South Africa which made resources available by retaining the services of a US consultant to assist with work toward meeting the US sanitary and phytosanitary requirements. This will facilitate the export of agricultural products to the US through the AGOA arrangement.

- The recently established Trade Forum should play a key role in raising awareness and encouraging investment towards the production and export of products such as cotton seed, hides, karakul pelts, raisins, fish and meat of cattle. Because the country has a comparative advantage in these product as shown by the revealed comparative advantage technique. It will be also of great importance for the government to promote its EPZ regime together with these products as this might lure more investors.

- Based on the defined comparative advantage criteria, the paper further suggests that the Ministry of Trade and Industry should encourage investment in the production and export of products such as high value crops, wine, grapes, leather products, process marble products, gas and semi precious stones. The Green Scheme project is the step in the right direction in this regard, but should be complemented by value addition of its products.

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7. APPENDIX

TEXTILE AND APPAREL: A SPECIAL RULE

The specific or even restrictive rules of origin imposed on AGOA apparel imports are often one of the main sources of criticism of the initiative. This criticism may not entirely be correct, as there are cases (besides the special rule provisions) where African countries have the opportunity to export non-U.S based apparel to the U.S. There is little doubt that on one hand these restrictive rules of origin reduced the scope of AGOA preferential initiatives. But on the other hand, the stringent rules of origin helps to protect already secured African access to U.S market. Current market access for Africa is protected by ensuring that countries that are not AGOA beneficiary do not benefit from preferential access.

Namibia's textile and garment manufacturer, Ramatex, was established as a vertically integrated textile plant which in essence would meet all the rules of origin requirements under AGOA (for export to U.S), SADC Trade Protocol and the Cotonou Agreement (for export to the EU). A vertically integrated textile plant is one that encompasses a production process starting from the spinning of cotton, production of yarn, fabric, dying printing, cutting, knitting and the production of garments and apparels.

Therefore, with a vertically integrated textile and clothing manufacturing plant of Ramatex, Namibian textile and clothing products can be regarded as originating from Namibia, and hence are eligible for preferential market access to the lucrative markets such as the U.S. and the EU and to the regional market under the above mentioned trade arrangements. As a vertically integrated factory, Ramatex textile and clothing plant is the only such plant in Sub-Saharan Africa, which is capable of not only exporting garments, but also yarns and fabrics.

The most fundamental requirements that Namibia have to meet before it can export products to the U.S under AGOA are the 'rules of origin'. The rules of origin require the products to be the 'growth product or manufacture' of a beneficiary African country. These rules are a constraint to Namibia because they added an administrative burden for companies to keep the following documentation and records:

- production records,
- information relating to the place of production,
- the number and identification of the types of machinery used in production,
- the number of workers employed in production, and
- certification from both the manufacturer and the exporter.

These requirements are a kind of non-tariff barriers that are constraining Namibian companies to export to the U.S. As a result, Namibian companies wishing to benefit from AGOA will have to invest extra resources to meet these requirements of the rules of origin. For now, the constraints of the rules of origin is not so much felt by the Namibian textile and garment sector because of the prevalence of the third country provision. However, these constraints will be more pronounce after 2007 when the third country provision will come to an end.

(i) Rules of origin for non-apparel exports

In order for Namibian non-apparel exports to qualify for duty-free access to the US under AGOA, the rules of origin require the products to be the "growth, products or manufactured" in Namibia. The rules further require the product to be exported directly from Namibia into the United States. During the production process, Namibian products may incorporate inputs sourced from non-AGOA countries. However, the direct costs and transaction value of these inputs plus the local inputs should equal at least 35 per cent of the appraised value at the U.S port of entry. Included under these "direct costs of processing" are the cost of labour, engineering or supervisory quality control, machinery costs (and depreciation of machinery and equipment), as well as Research and Development costs (R&D).

(ii) Rules of origin for apparel exports

In order for Namibia to have qualified to export apparel and certain textile items to the U.S. duty-free under AGOA, it first ensured that the US authorities is satisfied with its compliance with the AGOA rules of origin. Namibia’s AGOA eligibility does not automatically imply eligibility for the 'Wearing Apparel' provisions. In this regard, the country was first certified as having complied for the Wearing Apparel provisions. This entails having taken adequate steps to "establish effective product visa systems to prevent illegal transhipment and the use of counterfeit documentation, as well as having instituted required enforcement and verification procedures.