

The Kenyan Textile Industry in a Liberalized Economy: An Analysis of Performance and Challenges

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Abstract

With the Kenyan textile industry being one of the most important contributors to industrial development, liberalization of the country's economy in the early 90's resulted in great competition from imported clothing leading to closure of some textile industries. Firms that had been exporting under the African Growth and Opportunity Act (AGOA) were threatened by increased volume in exports from Asia. Though rated 3rd after Madagascar and Lesotho, with 20.7% of total African apparel exports to the US; Kenya's textile industry's development was hampered by manpower underdevelopment, high cost of production, competition both in the local and international markets, consumer preference for imported textiles and corruption. The purpose of this study was to address these crucial issues that hinder the Kenyan industry from flourishing globally. Using both primary and secondary data, this study analyses the performance of the local textile industry in a liberalized economy; focusing on an overview of the industry before and after liberalization, the industry under AGOA and challenges resulting from liberalization. Significantly, government support through reduction of operation costs and review of training courses in relevant institutions to meet industry needs and increase human development and training are important in increasing the industry's performance

Keywords: Kenyan textile industry, liberalized economy, performance, challenges, prospects

INTRODUCTION

The Kenyan textile and clothing industry began during the colonial period (Kinyanjui, Lugulu, McCormic, 2004). By 1945, there were seventy four (74) such establishments. At independence, the government inherited well-established clothing and textile industrial sector which expanded under the Import Substitution Scheme (ISS) whereby imported clothing and fabrics were taxed heavily to enable the local industry flourish (Goughlin and Ikiara, 1991). Most of the textile mills were owned by private investors, majority being Kenyans of Asian origin because the technical expertise came from India. The industry grew rapidly after independence between 1976-83 and fibers such as cotton, wool and sisal were locally available but synthetic fibers (nylon, polyester, acrylics) jute and linen were imported as well as dyes, chemicals, and resins (African Development & Economic Consultants Limited [ADEC], 1998). The government invested heavily in firms such as Kisumu Cotton Mills (KICOMI), Rift Valley Textiles (RIVATEX), Kenya Textile Mills (in Thika) and Mountex (in Nanyuki). Private firms such as Raymonds, Yuken, United Textile Mills, Sunflag, Thika clothing Millers, Spinners also evolved and thrived under the ISS era. Production stagnated from mid 80's and fell sharply after liberalization in the early 90's (Kinyanjui *et al.*, 2004). In 1984, there was change of policy from ISS to Export led

industrialization as contained in national development plan of 1984-88. Export promotion was encouraged and schemes such as Manufacturing Under Bond (MUB), Export Processing Zones (EPZ's) and Export Compensation Schemes were formed and markets were liberalized by abolition of quantities restrictions and lowering of tariffs to facilitate exportation of their products.

Liberalization of the Kenyan Economy in 1993 meant great competition from imported clothing (CBS, 1995). There was increased importation of textiles especially secondhand, "*mitumba*". Nyang'or (1994) points out that these clothes were preferred to locally manufactured ones because of their high quality and low prices. Low sales and financial difficulties experienced by the local producers led to closure of textile firms such as KICOMI, Allied Industries Limited and Heritage Woolen Mills.

While MUB was started in 1987 to allow duty-free imports of machinery and raw materials, the condition remained that all products were to be exported. If a MUB firm wanted to sell the products locally, it could do so after paying duties and Value Added tax (VAT). Companies wishing to produce under MUB apply through investment promotion center to the Ministry of Finance. EPZ on the other hand was initiated by the government in the 1990's to

encourage export manufacturing. Under the strategy, EPZs were to be established in Nairobi, Mombasa and Athi River. Completed zones, constructed by the Kenyan government consist of factory buildings, warehousing and banking and one-site custom office. Raw materials come from the countries to which the products are exported (Kinyanjui *et al.*, 2004).

The EPZ incentive regime in Kenya provides exporting firms with a 10-year tax holiday, unrestricted foreign ownership and employment, and freedom to repatriate unlimited amount of earnings. The firms are also exempt from observing some core labor laws and regulations. For example, until 2003, trade unions could not organize workers in the EPZ firms. In addition, the Factories Act (Chapter 514) is not being enforced in the zones. The EPZs have enjoyed from the enormous market prospects presented by the tariff and quota advantages granted under the US-led African Growth Opportunity Act (AGOA) and the African, Caribbean and Pacific-European Union (ACP-EU) Cotonou Agreement (EPZA, 2005). The dominant occupational divisions (sections) in the EPZ factories are machining, ironing, cutting, packaging, cleaning, quality control, finishing and maintenance.

Africa Growth and Opportunity Act (AGOA) was promulgated in the United States in the year 2000. This Act liberalizes trade between 38 designated Sub-Saharan African (SSA) countries, Kenya included. The Act originally covered an 8-year period from October 2000 to 2008, but amendment in July 2004 further extended AGOA to 2015. Kenya qualified for the AGOA wearing Apparel provision in January 2001, being one of the first SSA countries to do so (Tralaac, 2005). The fastest growing exports to the US under the program have been from the garment and apparel sub-sector (Tralaac, 2005; Kelley and Munaita, 2005.) The act played a critical role in assisting exports of textiles and apparel goods which became the country's dominant export category to the US (Tralaac, 2005). The exports rose steadily from US\$ 64.4 in the year 2001 to US\$ 277.2 in the year 2004. With the advantage of AGOA, the number of manufacturing firms, the value of exports and number of employees increased.

However, the advantage to the African countries came under threat from year 2005 due to a surge in textile imports from Asia following the end of a global quota system. The removal of the quota restrictions under the World Trade Organization (WTO) 30-year old Multi-Fiber Agreement (MFA) meant that poor African producers are no longer protected from stiff competition from Asian mass producers (Mugambi, 2005). Asian countries then enjoyed unlimited access to the duty-free market after the quotas were lifted in January 2005. This set the stage for a rapid increase in Asia's textile and apparel

exports to the US (notice from the table above that the exports recorded decrease from 2005. China for instance had a total share of 10% in the US market but it reached 33.5% in 2008 (OTEXA, 2008). There was a decline again in Kenya's exports to the US between 2005 and 2007, from US\$ 270.6 to US\$ 248.2. Kenya's EPZ shaded jobs since October year 2004 as many investors pulled out (Kelley *et. al.*, 2005).

Therefore this study analyses the performance of the Kenyan textile industry in a liberalized economy, specifically focusing on an overview of the industry before liberalization, after liberalization, the industry under AGOA and challenges facing the industry in the liberalization era.

METHODOLOGY

Study Area and Sampling

The study targeted manufacturing firms in Nairobi that specifically produce cotton (cotton fabric is very versatile and comfortable) or cotton blended fabric and/ or garments. This is because these firms were initially highly protected by the Kenyan government and had been relying heavily on local sourcing of cotton from farmers thus had developed expertise in production of items made from cotton fibre. To get a representative sample, purposive and snowballing sampling methods were used to select these firms.

DATA COLLECTION AND ANALYSIS

Primary data were collected using an interview schedule consisting of both open-ended and closed questions that addressed the various economic factors of the manufacturing firms and details about their businesses. Data were analyzed using the Statistical Package for Social Sciences (SPSS®). The results describe the nature of the industry, respondents and their businesses. Secondary data from documented literature and statistics from textile industries, that covers areas such as the performance of the Kenyan textile industry before and after liberalization including during AGOA era, challenges and prospects in the industry helped to elaborate findings from the interviews and explain unexpected phenomena.

RESULTS AND DISCUSSION

Challenges facing the Kenyan apparel industry

Majority of the respondents agreed that Kenya as the regional hub for trade and finance in East Africa is hampered by corruption and reliance upon several primary goods whose prices continue to decline (Tralaac, 2005). The problems facing the industry include high cost of production, unskilled labor, managerial, competition and lack of government support and corruption as follows.

❖ *High cost of production*

From the respondents, cost of production is high for the industry due to high cost of electricity, poor

infrastructure, high interest rates, technological changes and lack of qualified labor. Ikiara & Ndirangu's (2004) study among spinning fabric and garment manufacturing firms in Nairobi, Mombasa, Nakuru, Nanyuki and Athi River reported similar findings. Also, the hardware technology used in the industry include old and obsolete technology which very few firms had changed since installation because of lack of finance including high interest rates and that these firms are not allowed to import machinery duty-free. Though new technologies appropriate for processing are critically important in the sector Ikiara *et al.* (2004) observed that garment producers have newer machinery hence newer technology than yarn fiber manufacturers. Additionally, though EPZ officials acknowledged that the threat from China is real, issues such as delays in port clearance, poor transport and communication systems, high power costs, all contribute towards making Kenyan exports competitive (Ngunjiri, 2005). Notably, the cost of electricity in Kenya is five times higher than in South Africa and nearly three times more than in China (Irungu, 2005).

❖ **Unskilled Labor and Lack of Trained Managers**

The study revealed that over 70% of the respondents had either a diploma or certificate level training in clothing production. Ikiara *et al.* (2004) points out poor quality and inadequate supply of labor forced local companies to hire highly paid expatriates. The average textile worker in Kenya requires about five years of training to attain the skills and productivity level similar to a worker in China which Kenyan firms cannot afford as the industry lacks explicit human resource development plan (Bosibori's, 2000; Ikiara *et al.* 2004). The mainstream academic institutions offering courses in the field of textiles have not adequately catered for the industry as a report by the United Nations and the Directorate of Industrial Training indicate that the Kenyan University training lack a link to the industries. Most employers spent up to two years retraining their recruits to equip them with skill (Siringi, 2005).

❖ **Competition, Lack of Government Support and Corruption**

From the study it is clear there is competition both in the import and export markets for yarn, fabric and garment manufacturers (Bosibori, 2000; Elung'ata, 2003; Ikiara *et al.* 2004). Elung'ata's (2003) study among apparel traders in Nairobi found that the type of apparel sold was affected by consumers' preference for imported apparel as locally made ones did not meet their needs in terms of quality and variety. Custom-tailored, new-imported and second-hand apparel in that order were mainly sold by the apparel traders. Locally manufactured apparel was least sold and mostly it was uniforms for schools and work. The traders cited competition and lack of

government support as problems facing them. According to Ikiara *et al.* (2004), there is competition both in the import and export markets for yarn, fabric and garment manufacturers. In the import market, the competition is unfair because of uncontrolled imports of second-hand clothes, counterfeit textile products and imports that evade duty. These firms receive little support from the government due to trade policies such as payment of import declaration fee which do not exist in other competing countries and taxation of second-hand items based on weight rather than value. Corruption and delays by Kenya Revenue Authority at entry points were cited. This is through the introduction of compulsory verification of imported raw materials and capital goods to check abuse of the duty-free incentive allowed for EPZ firms (Ikiara *et al.*, 2004; Ngunjiri, 2005). The above problems have all contributed to making the Kenyan textile products both in the import and export markets uncompetitive. According to Otiso (2004), among the major factors behind the success of Asian, Caribbean, and South American exporters to the USA are abundant low and high-skilled labor, high quality products, good marketing or management and availability of raw materials. In addition to cheap low skilled labor, sufficient numbers of high-skilled workers are needed to spearhead apparel design, equipment maintenance and production and marketing. Such high-skilled workers are lacking in most African countries unlike Asian producers that have special training programs which ensure steady supply of middle and high-level management for their textiles and clothing. China for instance has the Textiles University of Shanghai.

❖ **Role of the textile Industry in the Kenyan Economy**

The manufacturing firms appreciated that the textile and clothing industries offers employment opportunities to owners, partners, directors and casual or full-time employment to both skilled and unskilled workers. In 1954, Kenya had a total of 74 enterprises employing 2477 workers, compared to the early 1990's when the garment sector provided approximately 19% of employment in the manufacturing sector (Kinyanjui *et al.*, 2004). The decline in performance by the industry due to liberalization affected employment too. Additionally, a survey (CBS, 1999) of micro and small-scale enterprises indicate that more than 84,000 workers were employed in small-scale production. Large factories employ up to 2500 workers while micro-enterprises employ 1-6 workers. Elung'ata (2003) found that 71% of apparel traders in Nairobi employed less than 5 workers, 20% employed less people while small-scale and medium scale enterprises employ fewer. Until year 2004, MUB firms employed 4000 workers (Kinyanjui *et al.*, 2004) while EPZ firms employed up to 39,000 workers (Ngunjiri, 2005).

Through taxes such as VAT, import duties etc; the sector is a source of revenue to the government. The industry produces a wide range of products for domestic, regional and international markets, thus providing an avenue for earning foreign exchange.

Role of the Government in the Textile Industry

The government significantly influences the clothing and textile industry through a number of ways including formulating trade policies that influence the performance of the industry. For example, the Import Substitution Strategy (ISS), which protected the local industries from competition, enables the industry to flourish in the local markets. However, the export-led industrialization provided for abolition of quantitative restrictions and lowering of tariff thus market liberalization. As a result the local producers who had been concentrating mainly for the local market faced great competition from imports leading to decline in performance by the industry. The government control product costs through VAT and licensing costs. It also determines import and export duties to be paid. Also, the respondents recognized that the government offers training in the industry through the Directorate of Industrial Training and technical institutes. Through the Kenya Bureau of Standards (KEBS), the government ensures that the clothing and textile products meet the required standards. Therefore it controls the quality of imports and also locally produced ones.

CONCLUSION AND RECOMMENDATION

The success of the Kenyan textile industry in the global market lies with its access to the European Union (EU), United States of America (USA), and COMESA as well as East African Community (EAC) markets. The challenge for Africa and Kenya is to address issues such as high cost of production, inadequate supply of skilled labor and availability of local raw materials, that bars the industry from flourishing in the global market. If spinning, weaving, knitting, dyeing and finishing can be done locally, the production process becomes cheaper (Otiso, 2004). The prospect of the industry relying on local sourcing of cotton fabric is dim unless urgent interventions are made. There is insufficient supply of seed cotton, poor quality operation and slow investment in the yarn spinning, fabric manufacturing and fabric finishing due to poor infrastructure, unskilled labor and market and policy constraints. Locally produced fabrics are therefore of low quality, expensive and lack market because of competition from new and second hand clothes. There is need for an operational cotton textile-apparel chain to enable co-ordination and consultation (Ikiara *et al.*, 2004).

AGOA protected the SSA countries from competition by Asian countries until year 2004 when quotas were lifted posing threats to African producers. In order to counter the effects of competition from Asian

countries following the expiry of MFA, the SSA textile and garment manufacturers sought to form a regional body to address key issues in the industry (Ngunjiri, 2005). The success of the regional body formed by the African garment makers is yet to be seen. The local industry in Kenya can improve its performance through human power development as the key to innovation if trade in textile and apparel has to meet the capacity in the current market competition. Appropriate training programs for textile and apparel studies that entail design, production and marketing should be designed by the relevant stakeholders. Textile incubator units targeting textile engineering and related fields of study should be established. These should be fully equipped small-scale textile production units to enable fresh graduates develop their skills (GOK, 2001) through collaboration efforts by the government and the private sector to provide adequate training. There is also need for a strong regional alliance by SSA countries in sharing of expertise, information, marketing and training. The Kenyan textile industry has a great potential in boosting the country's economy, especially under AGOA. In order for the country to compete effectively, and enjoy the advantages of the act, the discussed challenges must be addressed.

This study therefore recommends the following;

- Intervention by the government in reducing electricity costs, improved transport and communication system, interests rates, taxes and levies, appropriate standards for imports and proper tackling of corruption.
- Adequate provision of manpower through training in textile production, apparel design and marketing. This calls for collaboration efforts by the government and the private sector to provide adequate training in textile and apparel design.
- Small-scale garment producers need to be strengthened, as majority have potential to export.
- There is need for a strong regional alliance by SSA countries in sharing of expertise, information, marketing and training.
- Cotton farmers, yarn and fiber manufacturers and garment producers need proper co-ordination and consultation.

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