The textile industry in kenya an overview

1. 1 Background of the Textile Industry

Clothing and textiles contribute to 7% of total world exports. About one third of the world's consumers are in Western Europe, another third in North America and one quarter in Asia (Allwood et al., 2006). Nowadays, manufacturing often takes place in developing countries that account for half of the world textile exports and almost three quarters of the world clothing exports. The sector is dominated by China where more than one quarter of the world's production of clothing and textiles is located. Among industrialized countries, Germany and Italy are still important exporters of clothing while the United States plays a significant role in textile exports. The United States also remain the largest cotton exporter (Allwood et al., 2006).

In addition, the clothing and textile sector is shaped by international trading agreements. To protect domestic textile industries, quotas for exports from developing countries (mainly China) to industrial countries were previously in use. These restrictions, referred as the World Trade Organization´s (WTO) Multi-Fibre Arrangement, (MFA) have been removed since 1st January 2005. As a consequence, there is now a free trade for textile and clothing products (Eurostat, 2007; Forum for the Future, 2007).

Except for a few countries, the manufacturing sector has been stagnant in Sub-Saharan Africa (SSA). Its share in the economy, particularly in exports, is significantly smaller than other low income countries, and this shows a sharp contrast to Asian countries. In East Asian countries, labour-intensive products such as clothing, shoes, and wooden products have been the main sources of export growth in the early stage of industrialization, and this has contributed to the reduction of poverty through provision of employment to unskilled workers (World Bank, 1993).

Pack and Westphal (1986) state that, the same process occurred in other Asian and Latin American countries in the 1980's and 1990's, and recently even reached low income countries such as Vietnam and Cambodia. The wave finally came to Africa after 2000, triggered by the free duty access to US markets: Africa Growth Opportunity Act (AGOA). Foreign investments have been made in the garment industry in several African countries, specifically Kenya, Madagascar, Lesotho, and Swaziland, and exports of clothing to the US market sharply increased after 2000.

There are several reservations with regard to replicating the Asian experience in Africa. First, while the clothing industry provides large employment to unskilled and female workers, it is criticized for its low wages and poor working conditions. It is argued that the intense competition in the world, textile market gives strong pressure of cost reduction for garment firms, as called " immiserising growth" (Kaplinsky, 2000). Second, as the performance after termination of the quota system in world textile market shows, there is a serious concern about the competitiveness of African clothing within the free market system. Since the rapid growth of exports was initiated by the non-duty and non-quota status given to African products, the termination of the quota system in the world textile market has partly spoiled that advantage, and the growth trend has been disrupted in some African countries.

According to Lall (1999), Biggs et al., (1995) and Collier and Gunning (1999), they suggest that an inefficient business environment and poor technical knowledge in local firms has hindered development of the manufacturing sector in Africa Third, in the process of growth, local firms have played an important role in most garment exporting countries, but they are not active in Africa. Local firms not only are they supported by multinational firms as subcontractors, but they finally replaced multinational firms. This is also important for the transfer of technology and knowledge, which is a source of sustained economic growth in theory as well as the Asian experience. It is reported that local firms gained knowledge of technology, markets, and management from multinational firms, and such technology transfer built the industrial base of Asian countries (World Bank, 1993; United Nations Conference on Trade and Development (UNCTAD), 2002).

In African countries, the apparel sector has been declining both in an absolute and a relative sense. The apparel share of manufacturing declined an average of 5. 3% per year in African countries over the period from 1981 to 2000. While several explanations have been offered for the overall poor performance of African countries, including poor government policies, poor institutions, high transactions costs, poor infrastructure, uncertainty and poor social capital (Collier & Gunning, 1999; Easterly & Levine, 1997; Fafchamps, 2004), it is not immediately apparent that these reasons explain why apparel production has been declining in a relative sense within these countries.

However, a visit to a typical African market does offer a potential explanation that is worth testing. Here, one sees large volumes of used clothing that have been sourced as cast-off donations in industrialized countries, and then sent to Africa. In fact, there was a dramatic increase in the donations of used clothing to charities in developed countries over the past 20 years. Unable to sell even the majority of this clothing domestically, charities typically sell the used clothing to exporters who send it at a very low cost to developing countries, particularly in Africa (Hansen, 2000). The importance of this trade is seen by example. For the U. S., used clothing is consistently one of the top ten exports to African countries (U. S. Dept. of Commerce, 2003; U. S. Trade Representative (USTR), 2001; 9 US. International Trade Commission (USITC), 1999). About 16 % of the containers in container ships with U. S. exports bound for Africa in 1995 were filled with used clothing (Hansen, 2000, p. 120).

Kenya is one of the largest importers of second-hand clothing (referred to as ‘ mitumba’ meaning ‘ onslaught’) in Sub Saharan Africa (SSA). The trade started in the late 1970s/early 80’s, when it was brought in duty free by charities during the wars in Zaire, Rwanda, Somalia and Burundi etc. At this time, refugees from these countries flocked into Kenya and along with them came charitable aid in the form of tents, food, medicine and clothing. As more clothing came in through charities and churches it was also given freely to the urban and rural Kenyan poor who could not afford to purchase new garments. But, by the mid-1980’s, following high demand for cheap second-hand clothing, donors revised their distribution policy and started to charge for clothing items. It was at this point that it became commercialized and accessible to the whole population, 1990 was by far the most critical year. Trade was liberalized and the consequent relaxation of exchange regulations meant that second-hand clothing came flooding in. This provided an important impetus for the rapid growth in the scale and complexity of the trade.

While various papers have explored analytically the relationship between used-clothing donations and textile and apparel production, the impact of used-clothing imports on textile manufacturing was raised anecdotally by McCormick et al., (1997) based on surveys of textile producers in Kenya. They cite the importation of used clothing as the main cause of weak demand in the sector, which along with credit constraints and " lack of suitable secure premises" form the key barriers to growth for these firms, based on the firm survey responses. Studies that have focused more directly on the importation of donated used-clothing have been limited in number and descriptive in nature, and include Hansen (2000) and Haggblade (1990). To place the apparel sectors in these countries in context, overall, the contribution of the apparel sector to employment in Africa is greater than its contribution to manufacturing. As mentioned, the second hand trade in Kenya has extinguished the local textile industry, which may have had an impact on textile manufacturing.

CHAPTER TWO: LITERATURE REVIEW

2. 1 The Textile and Clothing Industry

Economic history shows that the clothing and textile industry played an important role in the industrialization of today's developed countries. This is because of the industry's unique characteristics of being labour intensive and its links with other sectors of the economy such as agriculture. It is even suggested that developing countries wishing to industrialize should begin with clothing and textile industries (Kinyanjui et al., 2002; Zewdie et al., 2003). Textile is one of the manufacturing industries that range from small to large-scale production. Textile is more global than any other sector. The leading exporters of textile production change as time goes by; newcomers replace old ones. For instance, in the 1980s the leading textile exporters were West Germany and USA, in the 1990s they were replaced by Hong Kong and China (Dickerson 1999). The movement of textile industry from developed to developing countries has given hope for Africa. However, very few countries account for Africa’s total export i. e. Morocco, Tunisia, Egypt, South Africa and Mauritius. EU and USA are the main recipients of Africa’s textile products.

2. 2 Manufacturing and the Building of Textiles Industry in Kenya

The manufacturing sector in Kenya in 2004 accounted for over 20 percent of the country’s Gross Domestic Product (GDP), provided employment opportunities to about 300, 000 people in the formal and 3. 7 million persons in the informal sectors of the economy. The textile sub-sector constitutes an important component of the manufacturing sector in the country. It is one of the key sub-sectors targeted under the country’s strategy for economic recovery (Republic of Kenya, 2003). In the first decade following the country’s independence in 1963, manufacturing output in Kenya increased at the rate of 9-10 percent per annum on average, with notable expansion in the textile and garments production. At the time, public policy targeted import substituting industries for promotion (IPAR, 1996).

The main policy instruments for such promotion included a combination of tariffs and import quotas supported by foreign exchange allocation measures. The exchange rate was also generally overvalued to contain the costs of imported raw materials, and credit and interest rates were implicitly subsidized for manufacturing enterprises. The textile and clothing industry developed into a leading manufacturing activity in Kenya, both in terms of size and employment. It employed about 30 percent of the labour force in the national manufacturing sector. The industry also supports the livelihoods of over 200, 000 small-scale farmers by providing markets for cotton.

The success of the textile and clothing sub-sector during the import substitution period can be traced to the policy by the government that ensured a backward integration of the textile mills. Between the time of Kenya’s independence and the end of 1990, the government systematically introduced controls in the sector; it helped co-operative societies buy ginneries from colonial settlers, controlled marketing margins, fixed producer prices and invested heavily in textile mills. The government also protected the local industry by imposing a 100 percent duty on imported goods. This ensured rapid growth of the local textile industry hitting an average production capacity of over 70 percent.

The scope of import substitution policy in Kenya was exhausted by the early 1980s. By mid-1980s, the textile and garment industry started to wane. The inward looking policies pursued as part of import substitution made it difficult for the country’s textile exports to penetrate and retain their share of international markets. In addition, massive dumping of used clothes locally known as mitumba significantly undermined growth prospects and competitiveness of the sub-sector. Furthermore, since liberalization of the Kenyan economy in 1990, the influx of textile goods into the country has led to notable reduction in the capacity utilization of the local textile mills to about 50 percent.

The shift from an inward to an outward oriented development strategy in Kenya has been accompanied by the emergence of Export Processing Zones (EPZs). Kenya started implementing the EPZ programme in 1990. The country's EPZ programme is covered under the Export Processing Zones Act, (Chapter 517) Laws of Kenya. The Act defines EPZs as "…a designated part of Kenya where any goods introduced are generally regarded, in so far as import duties are concerned, as being outside the customs territory but are duly restricted by controlled access…" The objective of the programme is to promote exports, foreign exchange earnings, transfer of technology and skills, employment creation and enhancement of industrialization (Republic of Kenya, 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 labour 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 AGOA and the (ACP-EU) Cotonou Agreement (EPZA, 2005).

2. 3 Structure and Development of the Textile Industry in Kenya

The textile and clothing industry in Kenya faces significant crises. This emanates from continued deterioration in the purchasing powers of the majority of the population, thereby reducing effective demand for textile products, cheap imports, and the elimination of quotas as a result of the expiry of the Agreement on Textiles and Clothes (ATC), exposing the country to stiff competition on third markets from more established manufacturing economies such as China. Consequently, a number of firm closures and layoffs have been reported in the country's textile industry. Preliminary reports indicate that up to 12, 000 jobs have been lost due to factory closures and reduced operations (Kenya Association of Manufacturers (KAM), 2008). Textile industry in Kenya is relatively diverse. It can be divided into four broad categories, namely cotton growing and ginning, yarn and thread production, fabric manufacture and apparel manufacture.

2. 3. 1Cotton Growing and Ginning

Cotton in Kenya is mainly grown by small-scale farmers in marginal and arid areas. It is estimated that Kenya has 140, 000 small-scale cotton farmers down from over 200, 000 in the mid-1980s when the industry was at its peak (EPZA, 2005). The Cotton Board of Kenya estimates that countrywide, 350, 000 hectares of land is suitable for rain-fed cotton production with a potential to produce about 260, 000 bales of lint annually. In addition, 34, 500 hectares of Kenyan land is suitable for irrigated cotton production with an output potential of 108, 000 bales of lint annually. However, as of 2003 only about 25, 000 hectares were under the crop with a total lint production of a dismal 20, 000 bales.

There were 24 ginneries in Kenya in 2005 with an estimated installed capacity of 140, 000 bales per year. The total annual lint production, however, currently stands at about 20, 000 bales, which is significantly below the country's processing capacity and demand. The implication is that Kenyan ginneries could still handle production even if cotton output was to be increased by 600 percent. Table 2. 1 shows the installed ginning capacity in the country per province. The Table shows that Eastern and Central Provinces combined have higher installed ginning capacity but actual utilization levels is less than a quarter. Coast Province has markedly high capacity utilization. There are only about 10 ginneries that are currently operational. Some of the ginneries ceased operation due to shortage of raw materials and general mismanagement within the sub-sector.

2. 3. 2 Yarn, Fabric and Garment Production

Before the decline of the textile industry in the early 1990s, there were 52 textile mills in Kenya devoted to fabric and yarn production. The mills had an installed capacity of 115 million square meters of fabric. It is estimated that the total annual fabric requirement in Kenya currently stands at 225 million square meters. With about a 50 percent decline in the number of textile mills in the country, coupled with drastic reduction in cotton production, Kenya's fabric demand greatly outstrips domestic supply. This implies that more gains, in terms of employment and income generation, can be derived from resuscitating the textile sub-sector in the country. Garment manufacturing in Kenya has also experienced downturns over time. It is estimated that there were 110 large-scale garment manufacturers in the country in the early 1990s.

The garment manufacturing sub-sector had a combined installed capacity to process fabric into garments of 141. 3 million square meters. As in the case of textile mills, the number of garment manufacturers also went down over time. Specifically, the large-scale garment manufacturing concerns declined by half from 110 in early 1990s to 55 in 2004. Out of this, slightly more than half (29) are producing under the Manufacturing under Bond (MUB) scheme while the rest (26) are registered under the EPZ programme. The actual number of garment manufacturers that are not covered in the framework of the two schemes are not documented.

2. 4 Changing Industrial Processes within the Textile Industry in Kenya

The textile and clothing industry developed into a leading manufacturing activity in Kenya, both in terms of size and employment. It employed about 30 percent of the labour force in the national manufacturing sector. The industry also supports the livelihoods of over 200, 000 small-scale farmers by providing markets for cotton. The success of the textile and clothing sub-sector during the import substitution period can be traced to the policy by the government that ensured a backward integration of the textile mills. Between the time of Kenya’s independence and the end of 1990, the government systematically introduced controls in the sector; it helped cooperative societies buy ginneries from colonial settlers, controlled marketing margins, fixed producer prices and invested heavily in textile mills. The government also protected the local industry by imposing a 100 percent duty on imported goods. This ensured rapid growth of the local textile industry hitting an average production capacity of over 70 percent (Friedrich-Ebert-Stiftung, 2006). There is inadequate investment in the textile sector; a major challenge for the industry therefore is to attract investment in spinning, weaving and other fabric finishing operations. Technology also is a problem, and the government needs to find a way of making available reasonably priced technology to the industry, for instance by providing long-term credit guarantee. There is also concern that locally produced fabric is poor in quality and high in price (KIPPRA, 2003).

The scope of import substitution policy in Kenya was exhausted by the early 1980s. By Mid-1980s, the textile and garment industry started to wane. The inward looking policies pursued as part of import substitution made it difficult for the country's textile exports to penetrate and retain their share of international markets. Furthermore, since liberalization of the Kenyan economy in 1990, the influx of textile goods into the country has led to notable reduction in the capacity utilization of the local textile mills to about 50 percent. By the early 1980s, the textile industry was Kenya's leading manufacturing sector in terms of both employment and size, involving over 200, 000 house-holds and 30% of the manufacturing labor force (EPZ, 2005). In the early 1990s, due to several factors including mismanagement, lack of investment, and notably, the availability of second hand clothing, the local textile industry in Kenya collapsed. Local textile manufacturing supplies only 45% of Kenya's textiles market, while imported new and used clothes account for about 37%. Demand for textile products in the country is estimated to be growing at 3. 8% annually.

The garment and textile industry faced competition from a new form of trade in second hand clothes. Major players in the garment and textile industries such as Kenya Textile Mills, Rivatex, Raymonds and Kisumu Cotton Mills closed down. Kenya's garment production has declined significantly since the 1980s (McCormick et al. 2001). Consequently, a number of firm closures and lay-offs have been reported in the country's textile industry. The vast majority of textile and apparel firms feel that the industry is characterized b low quality and uncompetitive prices, and was seriously suffering as a consequence of uncontrolled importation of second hand products. They felt, nevertheless, that the industry had substantial potential if the whole chain could be well managed (KIPPRA 2003). According to Mr. Chris Kirubi, a Kenyan industrialist who blames second hand clothes for the demise of his textile mill states, ".. when you make your own clothes, you employ farmers to grow cotton, people to work in textile mills and more people to work in clothes factories; when you import second hand clothes, you become a dumping ground…" (Mission Safari, March 2005)

While ordinary Kenyans depend upon mitumba, local textile manufacturers have protested that the used clothing trade is hurting their industry . Other persons whose jobs are linked to the textile industry, such as traders and cotton farmers have lost their means of livelihood as a result of the closure.

" Textile manufacturers in Kenya have gone through a hard economic times. A number of them have since been closed, others have changed ownership. The remnants of them are merely surviving" (Peter & Gerrishon, 1991).

For example, Raymonds, once voted the best managed textile firm in the country, was taken over by Heritage Ltd first reduced the number of workers from 3000 to less than 2000 before it changed hands and finally closed down in 2001 as the importation of second hand clothes took its toll. According to a former textile worker, laid off from Raymond's Woolen Mills, the second hand clothes encouraged poverty by forcing more than 90 industries to close down in 10 years, leaving thousands of people jobless.

" But for mitumba, I would not be here now and many other Kenyans would have jobs. We would be making our industries work and even sell the surplus to Uganda and Tanzania and other countries. All Kenyans would turn to locally produced textiles if it was all that was available" (Daily Nation, June 2002).

Textile firm that have survived have done so by abandoning the mass market to diversify into niche areas like school or factory uniforms, or the fashionable local Kikoi, a colourful cloth worn around the waist or shoulders. The authorities in Kenya and other East African countries have at various times blamed the mitumba industry, which employs tens of thousands of people, for all manner of ills. Local textile manufacturers have long complained that their competitiveness is being undermined. In the face of an inexorably deepening recession, one of the responses of local industry has been to campaign vigorously against the mitumba culture.

3. 0 CONCLUSION

Poverty reduction and creation of productive and sustainable employment opportunities remain major policy objectives in Kenya. Despite several policy interventions, Kenya is still faced with high incidences of poverty, unemployment and low economic growth rates. Textile sub-sector constitutes an important component of the manufacturing sector in Kenya. However, inward looking policies initially pursued by the government, massive dumping of used clothes, illegal importation, expiry of the ATC quota regime, and general mismanagement of the agricultural and co-operatives sectors significantly undermined growth prospects and competitiveness of the textile sub-sector in the country. The industry is also under severe stress from Asian imports, particularly China and it is less likely that it can withstand the surge. Consequently, a number of firm closures and lay-offs have been reported in the country's textile industry, thereby aggravating the unemployment and poverty situations in the country.

Kenyan trade unions have been greatly affected by the crises in the textile industry. The collapse of the industry has seen a majority of workers being declared redundant. This means significant loss of membership by the unions and the erosion of confidence of workers in the capacity of trade unions to organize, protect and promote the welfare of workers. The revival of the industry, especially through the EPZs has not helped in improving the situation either. This is mainly due to the restrictive nature of the country's regulations particularly on trade union recognition and collective bargaining. Most of the EPZ firms have, for example, not recognized the relevant trade union body mandated to organize workers within the industry.

Reaction by trade unions has been piecemeal and uncoordinated. While the unions continuously voiced their reservations about cheap imported textile products, the same was done without any data-based research to show the magnitude of the problem. In addition, the few advocacy and lobbying activities by the unions have not focused on the relevant government machinery and policy making organs. Such campaigns have also failed to command a critical mass of support from other sectoral unions or civil society organizations to help influence change of policy discourse.