THE IMPACT OF PREFERENTIAL MARKET ACCESS INSTRUMENT: THE CASE OF AFRICAN GROWTH OPPORTUNITY ACT (AGOA) IN SWAZILAND

By

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DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed:……………………………..

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ABSTRACT

This study was concerned with the impact of preferential market access instruments, the case of the African Growth Opportunity Act (AGOA) in Swaziland. An in-depth literature review was done to analyse the arguments for trade and gains thereof basing the arguments on the Ricardian principle of the theory of comparative advantage which tells us that opportunities for mutual gains from trade arise from differences in the conditions of production in the two countries and that so long as there are differences, there will always be opportunities for trade, even if one country can produce everything more cheaply than the other (Hill, 2003).

According to Bhagwati (1995) market access instruments (preferential trade agreements) do have the potential to promote, trigger investment responses and generate employment, which in turn contribute to poverty eradication. Market access preferences have not automatically resulted in raising incomes and falling poverty rates in the majority of preference receiving countries. According to the 2003 United Nations Conference on Trade and Development (UNCTAD) report, even where market access preferences have had positive effects, it is not clear whether the positive effects are sustainable when market access preferences are eroded or abandoned. In order for trade to work it is important to make trade preferences work for trade.

The study found that whilst there has been a significant contribution of AGOA in the economy in terms of generating employment, there has been little contribution in terms of eradicating poverty. This has been partly due to the fact that whilst there was an influx of Taiwanese textile companies at the initial stage of AGOA, there was also a high number of companies that have closed down as a result of the flooding of cheaper Chinese textiles in the market which has hurt the domestic industry.

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DEFINITION OF THE PROBLEM

1.1. Introduction

In today's economically integrated world, international trade matters more than ever before (Internet 1). International trade can play an important role in alleviating poverty by providing jobs and driving economic growth and development in less developed countries. According to World Bank reports (2001), countries that have intensified their links with the global economy through trade and investment have usually grown more rapidly over a sustained period and consequently experienced larger reductions in poverty. International trade has the appeal of bringing additional resources such as technology, skills share and access to export markets that are desperately needed by the developing countries. However, many developing countries are usually faced with major hurdles in realising the potential gains offered by increased trade. This is as a result of poor infrastructure and government policies that fail to promote investment and economic certainty. Swaziland is no exception to this. There is a very close and direct relationship between growth, investment, trade, employment and other policy issues and the overall governance. The overall governance of a country creates a credible perception and confidence on other government policies and such provides an environment where business thrives.

In May 2000, the United States signed into law the African Growth and Opportunity Act (AGOA) which seeks to "harness the power of the private sector to contribute to sustainable economic development of sub-Saharan Africa by stimulating increased trade and investment flows between the United States and Africa" (Internet 2). AGOA also seeks to increase trade by allowing 98 percent of all goods from sub Saharan Africa to enter the United States duty free. One of the conditions for eligibility to AGOA is good political governance of the member country. Swaziland became eligible to participate in AGOA in 2001 and its eligibility came under threat in 2004 due to the country's political situation or governance at the time in particular the non respect of the rule of law and that the country has no constitution which was a major concern for the investors (Internet 2).

The intention of the study is to analyse the advantages of a preferential market access instruments to a developing economy like Swaziland and in particular the impact of the loss of AGOA on the economy and thus determine whether participating in AGOA since 2001 has assisted in alleviating poverty and creating jobs for the Swazi people and whether Small and Medium Enterprises have benefited.

1.2. Background of Research

1.2.1 Structure of the Economy of Swaziland

Swaziland is a landlocked country and has a small strongly export oriented economy. It is an open market, which makes it susceptible to external shocks. Subsistence agriculture occupies more than 80% of the population. Manufacturing features a number of agro-processing factories. Mining has declined in importance in recent years: diamond mines have shut down because of the depletion of easily accessible reserves; high-grade iron ore deposits were depleted by 1978; and health concerns have cut world demand for asbestos. Exports of soft drink concentrate, sugar, and wood pulp are the major earners of hard currency as per the Ministry of Economic Planning and Development report (2004).

According to the Ministry of Economic Planning and Development report (2004) the country's economic performance is highly dependent on worldwide trends in growth, world commodity prices, capital and flows. As with many developing countries in this extended period of intensified globalisation and economic stagnation, the country is faced with an urgent humanitarian need. Swaziland is classified as a lower-middle income country. According to International Monetary Fund (IMF) reports on Swaziland (2003), income distribution is highly skewed and poverty is widespread with estimated two thirds of the population living on less than US$1 a day. The country also has high rates of HIV/AIDS with a third of the adult population living with the virus, which weakens the economy of the country.

According to the Forsyth-Thompson (2003) economic growth has weakened since the early 1990's, which is due to the country no longer been seen as a good investment location after South Africa emerged from the apartheid era. The country's real GDP was at 2.1 percent in 2004 compared to 2.6 percent the previous year. The decline was partly caused by the persisting drought especially in non-irrigated Swazi Nation Land, appreciation of the exchange rate that significantly cut profit margins of the export sector (Minister of Finance's Budget Speech, 2005). Given the estimated population growth rate of 2.9 percent, the unimpressive economic growth fails to achieve the upliftment of the well being of the average Swazi and implies the deterioration of the standard of living as measured by per capita income.

The Minister of Finance in the 2005 budget speech stated that the, "future prospects indicate a further slow down in economic activity in 2005. Real GDP is expected to average 1.75 percent in 2005/2006". This is as a result of changes in the global trade regime and the HIV/AIDS pandemic while public finances are threatened by a prospective reduction in SACU revenues.

The labour force is characterised by excess supply as the current economic activities fail to generate the much needed job opportunities. The prevailing investment environment which is limiting the growth of the private sector undermines formal employment creation. According to the Central Bank of Swaziland Annual Report (2004) informal sector employment has in recent years gained prominence as a result of restructuring by most companies since the 1990's.

According to the Forsyth-Thompson (2003) South Africa is the country's most important trading partner and its largest source of foreign investment. Swaziland is part of the Common Monetary Area (CMA), and is also a member of Southern African Customs Union (SACU). As a result of the high degree of economic integration, South Africa's prospects have important implications for Swaziland's economic performance. Swaziland's currency is pegged to the South African Rand and as a result the country continues to enjoy the advantages of the parity of the local currency with that of South Africa as well as suffer the negative effects. Pegging of the Lilangeni to the Rand has ensured continued stability of the monetary policy, low inflation and interest rates that have spurred consumer spending and borrowing over the past year (Ministry of Enterprise & Employment, 2004).

The Lilangeni appreciated by 19.6 percent against the dollar, 14.6 percent against the British pound and 11.7 percent against the Euro in 2003. This appreciation brought about a reduction in the costs of imports and consequently the imported component of the country's inflation. According to the Central Bank of Swaziland (2004) the year-on- year average inflation rate was 3.43 percent in December 2004.

The overvalued rand/lilangeni exchange rate against a basket of its trading partner's currencies implies that the competitiveness of locally produced goods in the international markets deteriorated during 2004.

Although the strengthening of the local currency against the dollar comes as good news to consumers and producers spending on imported goods, the opposite can be said for the export oriented manufacturing sector. Also, the exchange rate volatility continues to be of major concern for the macro economic stability in the country as it makes investment and export planning extremely difficult.

Swaziland's economy has continued to be export led with exports at 86 percent of GDP in 2001. Accounting for 33.7 percent of total exports in 1995, 2001 figures show that it grew to account for 39.2 percent of export earnings (Ministry of Enterprise & Employment, 2004).

Due to the openness of the country's economy, the manufacturing industries are highly export oriented. AGOA, which gives the textile industry preferential treatment in selling to the United States of America, has led to a proliferation of export oriented firms in the manufacturing sector. By 2003, the textile industry employed 30 000 people. According to the Ministry of Enterprise and Employment (2004), the value added derived from manufacturing, on average accounts for about 36.2 percent of total GDP and this sector is the highest revenue earner for the country. AGOA has increased exports from the country to the United States of America by 4.1 percent. Inputs such as the raw material used in the textile industry mostly come from the Middle East, China, Pakistan and Taiwan. This reduces the value added in the country and in the process deprives the country of the most needed jobs.

One of the conditions for a country to become eligible for AGOA is to ensure that an independent judiciary system exists (Internet 2). In 2003, Swaziland's eligibility for AGOA was threatened because the government of the time interfered with the autonomy of the judiciary, which saw the resignation of the Appeal Courts judges. This also led to a decline in investor confidence and the result thereof was a closure of a number of the textile companies. During this time the country was without a constitution and there was pressure on the country from its international trading partners to normalise the rule of law. The country's officials were under pressure to rectify this impasse and a new government was put in place. A lot of effort was made by the country's officials to defend its eligibility for AGOA and it is through this that this research seeks to address the question of what the impact of AGOA is on the economy of Swaziland. Swaziland is a small country with minimal natural resources and therefore cannot survive on its own. As noted by the minister of Finance in the budget speech, "economic development requires improvements in judiciary systems, rules and practices that govern property rights and security for the broad cross section of the society".

1.3 Motivation for the Research

Swaziland is currently faced with a high unemployment rate and other socioeconomic problems brought about by different factors such as retrenchments. In the quest to create jobs, the country has increased its trade with foreign countries and is an eligible member to participate in AGOA. Recently, the country was faced with the threat of being withdrawn from AGOA because its eligibility was being questioned as result of the Government not complying with some AGOA rules in particular the rule of law. The questions however are, has AGOA contributed to the growth of the economy and has there been an alleviation of poverty sine it was enacted or has it only benefited the Asian textile business owners at the expense of the Swazi businesses? Would the loss of AGOA have a major effect on the economy or should the Government concentrate its effort on Regional Trade Agreements?

1.4 Value of Study

It is envisaged that the study will be invaluable to the Swaziland Government in particular the Ministry of Enterprise and Employment in its continued drive to empower the Small Medium Enterprise sector and to create more jobs for the Swazi Nation. The writer hopes that from this research the Ministry will assess the impact of AGOA on the economy in determining whether the country has reaped benefits of preferential access (free trade) with the United States of America. It is also hoped that the Ministry will use this research to improve on areas of weakness.

1.5 Problem Statement

Swaziland has a high unemployment rate caused mainly by retrenchments as a result of the slow growth of the economy. One of the purposes of AGOA is to "spur prosperity and development in African countries" (Internet 1). The research seeks to determine as to whether participation of Swaziland in AGOA has benefited the economy in alleviating poverty and reducing unemployment.

1.6 Objectives of Study

The objective of the study seeks:

- To evaluate the impact of AGOA on the economy in Swaziland
- To determine the implications of the loss of AGOA (GDP, employment, foreign exchange earnings, skills transfer, technological know how, poverty alleviation) on the Swazi economy
- To establish whether trade with the United States through AGOA has improved or increased

1.7 Research Methodology

The research approach will be qualitative in nature and the research design will be descriptive. Collection of data will use structured interviews and also use of secondary data.

1.8 Limitations of Study

Given the time frame of the research the study is limited in terms of its scope and depth.

1.9 Structure of the Study

The dissertation will be divided into five chapters as follows:

Chapter 2

This chapter will discuss the appropriate literature and the theoretical framework of the problem that is a discussion on the international trade theory and the political economy of international trade.

Chapter 3

This chapter will discuss the research methodology adopted and why it was adopted.

Chapter 4

This chapter will give a detailed review of the case study. This will include the background information on the Swazi economy including a discussion on the political environment in terms of attracting international trade. The next stage will be a full discussion of the country's performance in terms of participating in AGOA.

Chapter 5

This chapter will be an analysis of the case study as discussed in chapter 4.

Chapter 6

This will be the conclusions and recommendations.

1.10 Conclusion

Each chapter will end with a conclusion of what is stated in the chapter, and last sentence will be a link to the next chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Since the end of the Cold War, first world countries have been busy with the reorganisation of international trade regimes. All economies are increasingly open in today's economic environment of globalisation. Included in this globalisation mission is the setting of trade deals between themselves and developing countries. Trade plays a vital role in shaping economic and social performance and prospects of countries around the world, especially those of developing countries. According to Kachingwe (2003) the thinking behind this is about lifting the poorest out of their misery. Increased trade liberalisation provides opportunities for developing countries to boost their export earnings. Hill (2003) states that studies that have looked into the relationship between trade and economic growth show that countries that adopt a more open stance toward international trade enjoy higher growth rates than those that close their economies to trade. Foreign trade is a necessity for all countries, rich or poor.

According to an IMF Staff report (2001) integration in the world economy has proven to be a powerful means for countries to promote economic growth, development and poverty reductions. The report further states that over the past twenty years, the growth of world trade has averaged 6 percent per year, twice as fast as world output. Trade has however been an engine for growth much longer. Since 1947, when the GATT was created, the world trading system has benefited from eight rounds of multilateral trade liberalisation, as well as from unilateral and regional liberalisation. Research indicates that no country has grown without trade, however, the contribution of trade to development depends a great deal on the context in which it works and the objectives it serves.

This chapter will first discuss the theory of international trade, arguments for trade, gains from trade and the political economy of international trade. The discussion will be on how beneficial is trade on the Least Developed Countries (LDCs) and market access preferences.

2.2 The Theory of International Trade

Beginning in the early 1500s with the period of nation building in Europe, a group known as the mercantilists emphasised the benefits to a nation from generating a trade surplus. Such a surplus, an excess of exports over imports, would lead to payments in gold or silver by other nations in order to finance their corresponding trade deficits. These revenues would enable governments to increase domestic spending and output, and also to finance armies committed to defending or expanding national borders or spheres of influence. This perspective reflects a "zero-sum game" view of international trade, with surplus nations gaining at the expense of deficit nations (Internet 1).

Adam Smith's theory shifted the mercantilists view to a "positive sum game" of trade recognising that trade enables all participating nations to benefit from higher consumption levels (Internet 1). In his model, labour productivities differ from one nation to another. Each nation specialises in producing that item in which it has an absolute advantage based on lower labour costs, exporting some of this output in order to import at a lower opportunity cost those items in which other nations have absolute advantage. Smith's theory states that the gains from trade are consumption benefits in the form of low cost imports with exports representing the cost of acquiring such imports rather than something to be valued in them as contributing to a trade surplus.

The modern theory of international trade has its roots in the work of David Ricardo. Ricardo's theory of comparative advantage went beyond Adam Smith's theory. According to Hill (2003), David Ricardo's theory is the intellectual basis of the modern argument for unrestricted free trade. Ricardo's theory stresses that comparative advantage arises from differences in productivity. The theory showed that even a nation that is absolutely less efficient in producing all products can gain by exporting the product in which its absolute disadvantage is least. It also states that even the nation with an absolute advantage in all products can gain from importing that product in which its absolute advantage is proportionately least. The theory of comparative advantage tells us that opportunities for mutual gains from trade arise from differences in the conditions of production in the two countries and that so long as there are differences, there will always be opportunities for trade, even if one country can produce everything more cheaply than the other.

The theory of comparative advantage tells us that opportunities for mutual gains from trade arise from differences in the conditions of production in the two countries and that so long as there are differences, there will always be opportunities for trade, even if one country can produce everything more cheaply than the other.

According to Internet 3 the Ricardo model assumes that

- Factor immobility within the borders of a nation state is the most crucial
- Comparative advantage is determined before hand that is before the opening of an economy to trade, according to the static comparative approach, dividing economies into capital abundant and labour abundant.
- Nation states are the only actors in the international economy and thus national economies are conceptualised as "black boxes" inside which factors of production are combined in perfectly competitive markets.

Critics of the Ricardo's comparative advantage model argue that it leads to complete specialisation with each nation producing only that product in which it has a comparative advantage and importing all that it consumes of the other product. The vulnerability that this implies might lead nations to use import barriers to preserve domestic production in critical sectors such as agriculture and national defence.

The model also does not consider firms as economic agents and therefore reduces trade to a relationship among nation states. The theory assumes that there is only one resource and that is labour. However, it is the differences in relative costs that make trade mutually beneficial. Internet 3 states that some of the most important and successful twentieth century research in international trade has shown that different resource endowments can be the primary basis for mutually beneficial international trade.

In the real world economy, the above features assumed by the Ricardian theory do not apply. In the contemporary world economy trade flows, capital movements, inward and outward foreign direct investment and technology flows are component parts of the same system (Internet 3). The worldwide economy is no longer built solely on intense trade flows among countries but it is now a result of a multidimensional and complex set of asymmetric relations. Industrialised countries are connected to other industrialised countries through inward and outward flows of trade, foreign direct investment, speculative investment and technology.

Even such simple models, although static in nature, can be made more dynamic by showing how changing labour productivities over a period of time can eliminate a nation's historical comparative advantage in a particular product or create a new set of comparative advantages among nations, contributing to dramatic changes in trade patterns over time. This also helps to bring out the importance of national government policies as they affect labour productivity and either enhance or alter each nation's comparative advantage in a dynamic context. Incorporating money prices also makes it possible to show how more rapid inflation in one country than in another eventually can price that nation's export products out of the market if the exchange rate does not adjust to reflect this difference in relative inflation rates.

A more realistic view of international trade emerges when we recognise that the opportunity cost of producing a good is not constant as in the Smith and Ricardo models, but rather increases as more of a particular good is produced. The principle of diminishing marginal productivity also helps explain the rising unit production costs as more automobiles are produced.

The emphasis of a realistic view of trade is that trade leads only to incomplete specialisation, with each nation continuing to produce some of the product that it imports. According to Internet 3 the gains from trade take the same form here as in the simpler Ricardian model. Each nation, by specialising in production according to its comparative advantage, is enabled to consume beyond its transformation schedule, potentially consuming both more wheat and more autos than the limits of its own internal production possibilities would permit. The trade triangle, connecting each nation's production and consumption points after trade takes place, no longer appears at a corner of the nation's transformation schedule as in the Ricardian model, where each nation specializes completely and where its imports and its consumption of the import product are equivalent. Rather, with increasing costs each nation specializes only incompletely, so the trade triangle originates at an interior point along its transformation schedule and shows that each nation's imports will equal the difference between what it consumes of its import good and what it produces of that item. As before, the trade triangle shows each nation's exports to equal the difference between how much it produces of its comparative advantage product and how much of that item it chooses to consume.

However, the Ricardian model has severe limitations because of its assumption that labour is the only input to production, and extensions to incorporate other relevant factors are required in order to achieve greater realism and predictability. One of the most important, and limiting, assumptions in neoclassical trade theory is that firms produce under conditions of perfect competition. Any industry that is controlled by a small number of firms is not perfectly competitive. There is a whole area of economics, initially developed by Joan Robinson as cited by Internet 3 in the 1920's, that explores what happens under imperfect competition. There are many other varieties of trade theory, making different assumptions and getting different results.

In the 20th century Ricardo's theory was further refined by Eli Hecksher and Bertil Ohlin known as the Hecksher-Ohlin theory (a neo-classical framework). According to Hill (2003) the Hecksher-Ohlin theory argues that comparative advantage arises from differences in national factor endowments. This theory assumes that each country has a free market economy consisting of consumers and competitive firms. The Hecksher-Ohlin theory assumes that;

- Under free trade countries tend to export the good that uses their relatively abundant factor relatively intensively.
- Under free trade, relative factor prices will be the same in all countries.

This theory implies that if a country's factor endowments change, its trade will also change. It assumes increasing returns to scale, which means that large producers are more efficient than smaller producers. Ricardo, as noted above, assumed constant scale returns. If you allow increasing returns then bigger is better, and one nation may end up dominating an industry, but it's hard to say which nation will do so.

2.3 Arguments for Trade and Gains from Trade

The idea of trade as a mutually beneficial activity only gained currency and political momentum following David Ricardo's elaboration of the theory of comparative advantage in 1817. Today the free trade doctrine reigns supreme. Trade negotiations - at multilateral, plurilateral and bilateral levels - all focus on reduction and eventual elimination of trade barriers (a kind of disarmament treaty).

Least developed countries (LDC's) are connected to industrialised countries through trade, while foreign direct investment, speculative investment, technology flows and financial flows are managed from abroad to meet the needs of multi national corporations (MNC's). This contradicts the classical trade theory in that factors of production are increasingly crossing national borders. Today's trade determinants are taken by the MNC's with regard to the location of new activities. In Internet 3 it is argued that funding of economic activities in both developed and LDC's is made by MNC's operating outside the jurisdiction of central banks which creates a macroeconomic disequilibrium.

According to Todaro (1990) there are five questions related to international trade:

- How does international trade affect the rate, structure and character of less developed country (LDC) economic growth?
- How does trade alter the distribution of income and wealth within a country and among different countries or group of countries?
- Under what conditions can trade help LDCs achieve their development objectives?
- Can LDCs by their own actions determine how much and what they trade?

- In the light of experience, what are the best outward looking policies, inward looking policies or a combination of both (in a regional economic cooperation trade agreement)?

Fontagne and Mimouni (2000) extend this further by arguing that openness to trade is a prerequisite but not an engine of growth. Trade simply fuels the engines of investment, reform and credibility. They further argue that trade openness on growth is associated with:

- Specialisation as consumers and producers face a new set of relative prices. The producers in this case reallocate scarce resources towards the advantaged activities and there is therefore a gain in efficiency.
- Trade promotes variety. If there is complete specialisation of producers, trade promotes consumption of all products as a final or intermediate consumption. There is a reward for variety to consumers and the efficiency of the basket of inputs increases with the bundle of intermediate producers available.
- Where there is trade openness, there are increased returns because economies of scale justify any market enlargement. This gain is however dependent on the process of firms' issue.
- Trade encourages competition. In an oligopoly, trademark ups are negatively related to the number of competitors.

Integration of the world economy has raised living standards around the world. According to the IMF reports (2001), most developing countries have shared in this prosperity, in some, incomes have risen dramatically. Developing countries as a group now account for one third of world trade, up from about a quarter in the early 1970's. A number of the LDC's have substantially increased their exports of manufactures and services relative to traditional commodity exports. The IMF (2001) reports that manufactures have risen to eighty percent of developing country exports. Trade between developing countries themselves has also grown, with forty percent of their exports now within themselves.

The progress has however been uneven. Some developing countries in Asia and to a lesser extent Latin America have shown impressive progress. This is true for China and India since they embraced trade liberalisation and other market oriented reforms. Africa and the Middle East have seen less growth in their economies, which is partly attributed to the impact of political policies, regimes and corruption. The IMF states that the poorest countries have seen their share of world trade decline substantially and without lowering their own barriers to trade, they risk further marginalisation.

According to Meltzer (2004) world trade has risen rapidly over the past two decades. It grew by 4.7 percent in 2003 and was estimated to reach 7 percent in 2004. This growth has extended to a number of developing countries. However, most developing countries can boast only a small part of those gains. Meltzer notes that in particular, the share of the least developed countries in international trade has declined steadily, from 1.7 percent in 1970 to 0.6 percent in 2002.

International trade can be mutually beneficial to both trading partners because the two different countries have different conditions of production. They have a different relative cost so that each one has a comparative advantage in exporting at least one good. Vanzetti, McGuire & Prabawo (2005) stated that the opening up of markets provides a welcome opportunity for the development of exports whilst on the other hand it brings increased competition not only in export markets but also in domestic markets. For a country to benefit from market opportunities, resources need to flow from the inefficient sectors to those where productivity is greater. Vanzetti, McGuire & Prabawo (2005) further state that the reallocation of land, labour and capital inevitably involves some costs of adjustment and at the same time a reduction of tariff revenues may be experienced before alternative sources can be used. According to the UNCTAD report (2005) where capital and labour markets are poorly functioning and where government administration is poorly developed, the negative effects of trade liberalisation may appear to outweigh the potential but distant benefits, especially in an ailing macro-economy.

The removal of trade barriers in rich countries can accrue certain benefits for impoverished countries. But this can only occur when the economies of underdeveloped countries are accorded the right space to respond first and foremost to the fundamental developmental needs of their countries. The UNCTAD report (2005) states that rapid import liberalisation imposed on underdeveloped countries via structural adjustment programmes has more often than not intensified poverty and inequality.

The IMF, the World Bank, and most industrialized country governments are strong advocates of trade liberalization. In the case of the two Bretton Woods institutions advocacy has been backed by loan conditions, which require countries to reduce their trade barriers. Largely as a result of these loan conditions, poor countries have been opening their economies much more rapidly than industrialized countries. Average import tariffs have been halved in Sub-Saharan Africa and South Asia, and cut by two-thirds in Latin America and East Asia (Internet 2).

According to Internet 4 openness to international trade accelerates development. Trade openness (trade liberalisation) promotes growth in a variety of ways. This according to Panagariya (2000) forces entrepreneurs to become increasingly efficient since they must compete against the best in the world in order to survive. An open economy also affords a country access to the best technology and allows specialisation in whatever that country does best rather than producing everything they own. According to Panagariya (2000) the "fall of the Soviet Union was no small measure due to its failure to access cutting edge technologies to compete against world class producers and specialise in production". Even the United States, which has a large economy, specialises heavily in services, which account for 80% of the total United States output.

One of the major purposes of trade liberalisation according to Santos-Paulino & Thirwall (2004) is to "promote growth by capturing the static and dynamic gains from trade through a more efficient allocation of resources, greater competition, an increase in the flow of knowledge and investment and ultimately, a faster rate of capital accumulation and technical progress". Barriers to trade and anti export bias reduce export growth below potential. Import controls are likely to reduce efficiency although at the same time they protect the balance of payment. Santos-Paulino & Thirlwall (2004) further states that the presumption is that trade liberalisation will raise growth of exports and imports but the implications for the trade balance and balance of payment are uncertain because this depends on the relative impact of liberalisation on export and import growth and on what happens to the prices of traded goods.

Trade liberalisation may promote growth from the supply side, however if the balance of payment worsens, growth may be adversely affected from the demand side. This is caused by the fact that the payments deficits resulting from openness are unstable and not easily rectified by relative price changes. Being open to trade is not on its own sufficient to promote growth. In order for growth to occur, macroeconomic and political stability and other policies are important. Panagariya (2000) argues that in this regard some countries have opened up their markets and have not seen commensurate increase in economic growth. This is particularly true of African countries.

According to Bhagwati (1995), trade helps produce rapid growth and rapid growth helps in providing gainful employment to the poor. Also, rapidly growing economies can generate vast fiscal resources that can be used to alleviate poverty. Growth in the economy helps raise income of poor families, improves their ability to access public services such as education and health.

Trade liberalisation on its own is not sufficient for sustainable growth. According to the UNCTAD report capital and labour markets need to function so that resources can be moved to more productive sectors. In order for exports not to be implicitly taxed by an overvalued exchange rate macroeconomic stability is important. Whilst a competitive exchange rate, fiscal discipline, trade liberalisation, sound investment climate and secure property rights are considered necessary for achieving long term growth, there are other factors that need to be considered. Good governance, low levels of corruption, flexible labour markets, inflation targeting and social safety nets are other important aspects in promoting trade. According to the UNCTAD report empirical evidence is mixed as some countries for example Latin America, have largely followed these conditions with little apparent benefit whilst others such as in Asia have managed to sustain high growth rates without fulfilling all conditions.

Santos-Paulino & Thirlwall (2004) argue that reductions in export and import duties have significantly affected the growth of exports and imports, with the impact on import growth greater. They state that for a one percent point reduction in duties, exports have grown by just under 0.2 percent, while imports have grown by 0.2 to 0.4 percent. The impact of a more liberalised trade regime, in all its manifestations, independently of duty reductions has raised import growth by more than exports. This evidently shows that it has been easier for importers to import than producers to reallocate resources to the traded goods sector and to capture export markets. Their analysis shows that as compared to the pre-liberalised regime, the process of liberalisation has raised export growth by approximately just under 2 percent while import growth has increased by about 6 percent.

According to Krugman (1997), trade permits increased specialisation and specialisation permits increased attainment of economies of scale especially for countries with relatively small domestic markets. Trade permits fuller utilisation of the country's abundant factor of production. Krugman further notes that "increasing imports for their part provide increased competitive pressure that helps prompt domestic firms to improve technologies. Increased economic integration with the outside world also stimulates technical change through the diffusion of new technologies especially from more advanced countries at the technological frontier to developing countries".

2.3.1 Have the Least Developed Nations Benefited From Trade?

Duper argues that "where world trade is completely free and open as in financial markets it generally works to the benefit of the strongest. Developing countries enter the markets as equal partners and leave with unequal rewards." He also argues that in the areas where developing countries may have a competitive edge that is in labour intensive manufacturing and the export of unskilled labour, the market rules are often changed to prevent free and open competition. Developing countries have little choice but to continue opening their economies to trade since the world is becoming increasingly integrated. Economic growth helps eradicate poverty whilst improved export performance helps in achieving economic growth.

Levine and Renelt (1992) identify four core variables that influence growth:

- The share of investment in GDP
- The initial secondary school enrolment rate
- GDP per capita in 1960 and
- The rate of population growth.

According to the 2002 IMF report most developing countries, unlike Korea, have been unable to overcome the obstacles to expanding and diversifying their exports. The primary commodities of many developing economies on which many rely for export earnings have forced stagnant demand and have been battered by volatile prices. Also of concern is that the two sectors in which developing countries have a comparative advantage (that is agriculture and labour intensive manufactures like textiles and clothing) are heavily protected not only in the developed countries but also in the developing countries. According to Panagariya (2000) economies that are open to trade grow faster and that in low income countries, openness to international trade is indispensable for rapid economic growth. Few developing countries have grown rapidly over time without simultaneous increase in both exports and imports and virtually all developing countries that have grown rapidly have done so under open trade policies or declining trade protection. India and China are the best recent examples of countries that started with relatively closed trade policy regimes in the 1980s but subsequently achieved accelerating growth while opening up their economies.

Economic growth in African LDC's has been especially weak, with the slow pace of export growth contributing to the problem. Agarwal and Cutura (2004) state that although per capita exports grew over 250 percent in South East Asia and more than 750 percent in East Asia between 1970 and 1997, exports from African countries showed little improvement. Africa's share of world exports has halved from an already low share of 0.8 percent in 1980 due to a large decline in the regions share of non-fuel primary exports and small share of manufactured exports.

According to Agarwal and Cutura (2004), LDC's are heavily dependent on commodity exports and face the same trade related problems that is declining terms of trade and trade barriers particularly for processed agricultural commodities, a need to diversify export baskets and severe infrastructure and skill constraints.

In their analysis of the impact of trade liberalisation on exports, imports and the balance of payment in developing countries, Santos-Paulino & Thirlwall (2004) conclude that trade liberalisation has increased income elasticity's of demand for imports and exports by roughly equal amounts but has increased the price elasticity of demand for imports by more than for exports. The "pure" effect of trade liberalisation, independent of duty charges has been to worsen the trade balance by over two percent of GDP but the impact on the current account of the balance of payment has been less, worsening by approximately 0.8 percent of GDP on average. The effects on trade liberalisation on the trade balance and balance of payment have been similar across the regions of Africa, Latin America, East and South Asia in the sense that all the regions have suffered deterioration.

2.4 Political Economy of Trade

Trade policy as a development policy is based on an advocacy of openness and on an argument about economic efficiency and growth. The belief is that simple and open trade regimes as Low (2004) states, offer a "means of reducing governance problems by cutting the opportunities for discretionary policy and hence corruption and arbitrariness in developing economies". According to Low (2004) an open trade regime offers a way of conserving skilled labouring in both the public and private sectors to meet the challenges in education, administration, entrepreneurship. Venzetti, McGuire & Prabawo (2005) state that while openness is the end goal, the question is how to get there. They state that the various trade strategies available to developing nations include protection in selected industries or doing nothing, through to unilateral, bilateral, regional and multilateral liberalisation.

According to Low (2004) trade policy regimes over the years and across countries have evolved as;

- Import-substitution and commodity pessimism in the 1950's
- Switching to export orientation in the 1960 and 70's
- To outward orientation in the 1980's
- Endogenous new growth theory and economic geography in the 1990's

Until the 19th century, most tariff rates were negotiated between pairs of countries. This according to Krueger (1999) resulted in the same commodity being subjected to varying tariff rates, depending on its country of origin. Governments use instruments of trade to protect industries and domestic producers from low prices that would result from import competition. Sao Paulo as cited in Low (2004) once argued that the effects of subsidies and the application of tariff barriers to Brazilian products are as harmful as piracy.

The 1990's witnessed a significant increase in the number of Preferential Trade Agreements (PTA's). According to Ayhan Kose & Riezman (1999) one notable feature of these agreements is that a number of relatively small countries have signed PTA's with larger countries while granting a lot of major concessions to become members. The United States and Canada protected their agricultural sector while Mexico substantially liberalised it as a result of NAFTA.

Panagariya (2000) states that the current wave of preferential trade arrangements, like the first wave in the 1950s and 1960s, has given rise to a lively debate between free trade economists who view the arrangements as harmful and others who see them as beneficial. International trade in goods is governed by the General Agreement on Tariffs and Trade (GATT). The centrepiece of GATT is the Most Favoured Nation (MFN) principle. Panagariya (2000) further states that in matters of trade, each WTO member is to grant to all members the same advantage, privilege, favour or immunity that it grants to any other country. This implies that member countries are not to discriminate in their tariff policies across other members.

The last decade has seen the advocating of regionalism becoming an important policy issue in the global trading system. However, estimates of what preferential trade represents at the world level are relatively rare and often provide large ranges depending on the methodology that has been used (Internet 5). Ideally, one would need to dig into customs statistics to know what is the origin of each imported good and under which trade regime each good has entered the country. Indeed, the existence of a Preferential Trade Agreement (PTA) does not necessarily imply that products traded among PTA members enter the importing country under the preferential regime. The reason is that economic and administrative costs of satisfying rules of origin within the PTA may be so high that importers prefer to face the MFN tariff (Internet 5).

Preferential trade represented 40 percent of world trade in the period 1988-1992 and it slightly increased to 42 percent during the period 1993-1997 (Internet 5). The large countries (non-import weighted average) increased their share of preferential trade from 19 percent to 27 percent. This suggests that relatively large countries tend to have a larger share of preferential trade, but that small countries had a proportionately larger increase in their share of preferential trade between the two periods.

Preferential trade of agricultural products has experienced a larger increase than industrial products during the periods 1988-1992 and 1993-1997 (Internet 5). This is partly due to GATT-exception. The share of GSP on total preferential trade has significantly declined from 7 to 3 percent between the two periods. Erosion of GSP preferences as countries were opening up to trade after the Uruguay Round and engaging in other forms of PTAs, may explain the decline in the share of GSP worldwide. The regional distribution of preferential trade is relatively uneven with a significant share of preferential trade in Western Europe: 70 for the region as a whole (import-weighted average) and 43 percent for the representative country during the period 1993-1997. The Western Hemisphere has relatively low values as a region (27 percent), but the representative country's share of preferential trade is close to world levels (28 percent). Asia and Oceania have low values, both at the region level and at the representative country level (3 and 5 percent respectively). Africa and Eastern Europe (rest-of-the world) have values close to the average world levels, but they experienced the most dramatic increase between the two periods.

According to the World Bank (2001) report at the world level, there seems to be an inverted-u shape relationship between the share of preferential trade, and both the size of the country and its level of development (i.e. GDP/capita). More precisely, a country with a population of 12 million and a GDP/capita around 7200 dollars will tend to have the largest share of preferential trade whereas; either smaller and poorer, or larger and richer countries will tend to have smaller shares of preferential trade. This may reflect both bargaining power and negotiation capacity issues.

Countries which are highly open to trade tend to have a larger share of preferential trade on total trade during the period 1993-1997, suggesting that preferential and non-preferential trade can be seen as complements. However, according to Inama (2004), the mere granting of tariff preferences or duty-free market access to exports originating in beneficiary countries does not automatically ensure that the trade preference are effectively utilised. Preferences are conditional upon the fulfilment of a number of requirements mainly related to the rules of origin, which in many instances the beneficiary countries are unable to comply with.

According to Bhagwati (1995) market access instruments (preferential trade agreements) do have the potential to promote, trigger investment responses and generate employment, which in turn contribute to poverty eradication. Market access preferences have not automatically resulted in raising incomes and falling poverty rates in the majority of preference receiving countries. According to the 2003 UNCTAD report, even where market access preferences have had positive effects, it is not clear whether the positive effects are sustainable when market access preferences are eroded or abandoned. In order for trade to work it is important to make trade preferences work for trade.

Bhagwati (1995) notes that while market access preferences have helped to reduce or eliminate many tariff barriers to trade; they have not yet done away with many non-tariff barriers to trade. Some subsidies of developed countries inhibit the ability of LDCs to access the markets of their developed partners. This comes about when the subsidies of the industrial countries are granted to sectors in which developing countries have a comparative advantage for example the cotton industry. Such subsidies granted to producers and exporters in the developed countries can have a negative effect on the production and export of the least developed country since agricultural goods and low technological manufactures continue to constitute the backbone of their economies.

Perhaps the most important trade agreement outside the WTO agreements is the African, Caribbean and Pacific (ACP) and the European Union (EU) relation under the Cotonou Agreement signed in June 2000. As a successor to the Lome Convention, which had guided these relations since 1975, the Cotonou Agreement has the following new characteristics:

- It breaks the solidarity of ACP countries by creating regional differentiation through negotiation of Economic Partnership Agreements (EPAs).
- It introduces reciprocity.
- It seeks to be WTO compatible (Indeed, the EU proposals are WTO-plus).
- Creates uncertainty and confusion among Least Developed Countries.

2.4 What is AGOA?

The African Growth and Opportunity Act (AGOA) provides duty free access to textile and clothing products to all Sub-Saharan Africa (SSA) and took effect January 2001 and was signed into law by former President Bill Clinton in May 2000 as Title 1 of the USA Trade and Development Act of 2000 (Internet 2). The Act was expressly designed to increase trade and investment between the United States of America and SSA. Textiles and clothing have been statutorily excluded from GSP preferences since the inception of the United States GSP programme. The Caribbean Basin Initiative and the Andean trade are the only preferences that provide for preferences for textiles and clothing subject to the rules of origin requirements.

The African Growth and Opportunity Act (AGOA) allows Sub-Saharan African countries to export over 1800 tariff line items duty-free to the United States of America. The duty-free export incentives in terms of AGOA are for a period of eight years and expire in 2008.

The qualification criteria under the AGOA include progress toward a number of governance objectives, including reduced public intervention in the market place, strengthened rule of law, political pluralism, bureaucratic transparency, reduced barriers to US trade and investment, poverty reduction, improvements in health and education, expanded access to credit, establishment of labour rights, protection of human rights and others. The law requires that the executive review domestic policies in AGOA-eligible countries each year and report its findings to the legislature. Countries are to be disqualified if domestic policies are not proceeding quickly enough toward the goals outlined in the qualification criteria. Also, if the countries fail to resolve bilateral trade disputes with the United States and do not show sufficient respect for intellectual property rights, they will be disqualified.

The eligibility criteria for the Generalized System of Preference (GSP) and AGOA substantially overlap, and countries must be GSP eligible in order to be considered for AGOA eligibility. Although GSP eligibility does not imply AGOA eligibility, 45 of the 48 Sub-Saharan African countries are currently GSP eligible. AGOA eligibility does not automatically imply eligibility under the apparel provisions, which requires implementation of an effective visa system and an enforcement mechanism to prevent illegal transhipment.

By increasing trade, the African Growth and Opportunity Act (AGOA) is creating economic growth and decreasing poverty. Due to AGOA preferences, 98 percent of all goods from Africa enter the United States duty free. According to the World Bank reports, AGOA imports from sub Saharan Africa increased 88 percent between 2003 and 2004, to $26.6 billion. Non-oil imports such as automobiles and agricultural goods were $3.5 billion, up 22 percent over the same period. According to IMF reports (2005), real GDP growth in sub Saharan Africa increased in 2004 to an eight-year high of five percent and average inflation has fallen to 25 year lows.

AGOA does have specific incentives for apparel exports, but it is a misconception that this is the only real benefit for participating countries. The scope of tariff line items under AGOA is much wider than under GSP and includes previously excluded items such as footwear, luggage, handbags, watches, and flatware, fresh and processed produce.

The provisions for apparel fall into three categories:

• Unlimited duty-free and quota-free access to the US market for apparel made in eligible Sub-Saharan countries from US fabric, yarn and thread.

• A cap of 1, 5% of overall US apparel imports, growing to 3, 5% over an 8 year period, for apparel made from African manufactured fabric and yarn.

• Under a special rule, Sub-Saharan countries with a per capita GNP under 00 in 1998, as measured by the World Bank, will enjoy duty-free access until September 30, 2004, for apparel made from fabric originating anywhere in the world. All Sub-Saharan countries, except Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia, Seychelles, and South Africa, fall below this per capita threshold.

The purpose of AGOA is to help spur prosperity and development in African countries and bring them more fully into the global economy by giving them greater access to the United States market. It is also about integrating Africa into the worlds trading and finance networks (Internet 1).

2.5 Impact of Preferential Market Access Instruments in Trade Policies & Decision Making in Relation to Swaziland

Preferential Market Access Instruments for developing countries have had both positive and negative impacts on their trade policies more especially in terms of influencing their decision-making. According to Lamy (2006) for developing countries negotiating with more powerful developed countries there is usually the expectation of exclusive preferential benefits as well as expectations of development assistance and other non-trade rewards. Lamy (2006) continues to state that countries that have not entered into PTA's experience a reduction in their exports as products are increasingly sourced from parties within the PTA and they also experience a loss of FDI as investment is channelled into members that have preferential access to a larger market.

According to WTO paper (2006), PTA's lead to the creation of political alliances, where the price that must be paid by the developing country for signing a regional trade agreement with a developed country is that it must support the broader policy stance of that country. The developing country is somewhat compelled to support whatever policies the developing country is imposing in order to gain from being in that PTA.

Rolfe and Woodward (2005) state that the qualification criteria for AGOA are extensive in that they stipulate that a country must establish a market based economy, uphold the rule of law, eliminate barriers to U.S trade and investment, pursue economic policies to reduce poverty, protect internationally recognised worker rights and implement a system to combat corruption. They further state a country cannot engage in activities that undermine the U.S national security or foreign policy interests, cannot engage in gross violations of human rights, cannot provide support for acts of international terrorism and must have implemented commitments to eliminate the worst forms of child labour in order to remain eligible for AGOA.

PTA's for developing countries come with conditions that they have to comply with, which have a bearing in their decision-making. For example for a country to become eligible for AGOA it has to ensure that an independent judiciary system exists. In 2003 Swaziland's eligibility was threatened because the government of the time interfered with the autonomy of the judiciary, which led to the resignation of the Appeal Courts judges. This also threatened the existence of FDI in the country. Ryberg states, "While good governance is a condition of eligibility under the AGOA regime, in an even more important sense the real world of the market place requires good governance as a precondition of doing business". Through AGOA the textile and apparel sector in the country received substantial levels of investments. Whilst the government had a good justification for their action at the time, this situation had to be rectified in accordance with the dictates of the United States government if the country was to continue being an eligible member of AGOA.

Another condition for eligibility for AGOA a country needs to have anti corruption programmes in place and have respect for human rights. The Swaziland Parliament passed the Anti Corruption Bill in order to be seen as compliant. Whilst this has a positive effect on the country, this Bill would not have been put in place had it not been for the fact that the country needs the benefits that come with participating in AGOA.

Swaziland like most African countries, trade is not only an exchange of goods and services but also an engine for economic growth. By becoming part of the global economy, the country has to comply with trade regulations, labour laws, environmental standards and investment codes. Being a partaker of AGOA, the country has to ensure that child labour does not exist. Swaziland is faced with a high rate of HIV/Aids pandemic, which has left a lot of orphans to fend for themselves with no adult supervision. Whilst the Child Labour act has positive impacts on the country by ensuring that children are not abused, the negative aspect of this law is that whilst the country is engulfed with this pandemic, these orphaned children can not be employed which further exacerbates poverty.

2.6 Conclusion

The chapter was a discussion on the theory of international trade and the political economy of trade. The chapter also discussed the pros and cons of trade to developing economies and whether preferential market access instruments have the potential to promote, trigger investment responses and generate employment, which in turn contribute to poverty eradication (Bhagwati, 1995). The following chapter, which is the case study, is based on this argument and will present factual information on how much AGOA has had an impact on the economy of Swaziland.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter was a discussion of the literature review, which explained the theory of trade and gains from trade for LDC's. The chapter also discussed the impact of PTA's on trade and decision-making on Swaziland.

This chapter will outline the methodological approach used in collecting data. The main aim is to enable the reader realize the process the writer used in selecting the most appropriate tools when conducting this research. The chapter will discuss the research design, participants and data analysis used in the study.

3.2 Secondary Data

A literature survey of relevant published material on trade theory and benefits of trade and preferential market access instruments was commenced at the beginning of October 2005. The secondary data was collected through the use of published journals, books and website in order to complete the literature review. Ghauri and Gronhaug (2002) state that the importance of secondary data is that it helps in answering the research problem and also provides a benchmarking measure and other finding that can be compared later on with the results of the study at hand.

The use of secondary data also gave a good indication as to how much field work has already been done on the research topic and what missing data was needed to be collected through the use of questionnaires and structured interviews.

3.3 Research Design

The research methodology is qualitative by nature and the nature of the study is descriptive. A case study approach was used. According to Yin (1994) the case study method is an empirical inquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. Primary data was collected through the use questionnaires and unstructured interviews to officials at the Ministries of Enterprise and Employment, Economic Planning and Development and the Swaziland Investment Promotion Authority (SIPA). A questionnaire was sent to twenty companies at the Matsapha Industrial area, which is where most of the textile companies are based. The researcher recognises limitations of this type of study method including the use of a questionnaire, which gives superficial responses or non-responses. Due to this limitation the researcher adopted a comparative approach to the study. This was a comparison between Swaziland and Lesotho. Lesotho was chosen because it makes a better comparison to Swaziland due to the similarities in geographical nature (landlocked with limited natural resources) and the fact that it is also a monarch.

3.4 Use of Questionnaires

Based on cost, time and confidentiality considerations a self-administered questionnaire data collection was adopted by the researcher. The reason why this approach was adopted is that this method of data collection is generally cheaper and gives the interviewee room to express oneself without fear and also gives an honest response. However, limitations to this type of questionnaire on the other hand are that it generally gives a lower response rate in that the interviewer is not present to clarify questions. Also unstructured interviews to officials of the Ministries of Economic Planning and Development, Enterprise and Employment and Swaziland Investment Promotion Authority were used to collect the data. This approach was mainly adopted as it gives room for the respondent to express their own views. This was also adopted in view of the fact that there is little data available from the different Ministries pertaining to AGOA and its impact thereof to the economy of Swaziland. When interviewing the different officials from the various Ministries one is sent from pillar to post as the only concentration is on the number of people employed and not the other aspects that come with trade.

3.5 Participants and Ethical Considerations

The target population for this research was mainly the textile companies situated at the Matsapha Industrial sites and a sample of twenty companies was chosen. It is worth noting that most of these companies are of Asian origin and are therefore sceptical and suspicious of any questionnaires around the operations of their businesses.

The questionnaires were hand delivered to the respective companies and the participants were informed of their rights to refuse to participate. Participants were also ensured of their right to privacy of the information that they will provide and that participation in the questionnaire was not compulsory.

3.6 Conclusion

This chapter described the methodology that was adopted by the researcher in collecting data.

CHAPTER FOUR
COUNTRY PROFILE

4.1 Introduction

Chapter 3 was a discussion of the research methodology. The chapter was a summary of the methodology used to collect the data, what measures were taken to collect data.

This chapter starts of with a discussion on the country profile of Swaziland (population, political structure and the general economic review). Section two is a discussion of the case study. Due to the poor response from the textile companies' interviewed based at the Matsapha Industrial site, the chapter will also draw comparisons of how other Sub-Saharan African (SSA) countries have fared in the AGOA. In particular the research has focused on the experiences of Lesotho. Lesotho has been chosen mainly because it makes a better comparison to Swaziland in that it has similar geographic background, has a monarch and limited natural resources. It also has a high unemployment rate and is also dependent on South Africa for most of its imports. It is also classified as an LDC and has aggressively taken advantage of the AGOA in trying to eliminate poverty in the country by creating jobs through establishment of the textile industry.

According to the COMESA 2004 Annual Report, total trade between the United States and SSA was nearly US$24billion in 2002 with United States exports of US$6billion and US imports of US$18billion. United States imports under AGOA were valued at US$9billion in 2002. By 2003, total trade between the United States and the region had risen to US$25.4billion, an increase of 9.4% over 2002, whilst United States AGOA and GSP imports were US$14.1billion in that year. The report further states that countries that have made the greatest use of AGOA's tariff-and quota-free provisions amongst the SSA eligible member States are DR Congo, Kenya, Lesotho, Madagascar, Malawi, Mauritius and Swaziland. The major exports from these countries were textiles, garments, minerals and metals.

The textile exports from the African exporters now face major challenges now that the quota system under the Multi-fibre Arrangements was phased out in January 2005. The 2004 COMESA report states that the recent admission of China to the WTO poses a major threat to the African countries that export textile to the United States under the AGOA. Africa is faced with steep competition from the suppliers with very low costs, plentiful skilled labour, abundant raw materials, including indigenous cotton suppliers, vertically integrated industry, government subsidies and other forms of public sector support; and integrated national transport and communications systems.

The challenge is has AGOA assisted in improving the economic conditions in terms of alleviating poverty, job creation and whether trade with the US for Swaziland has improved.

4.2 Country Profile

4.2.1 Population

Swaziland is a landlocked country and covers just over 17,000 square kilometres and is the smallest country in the Southern hemisphere. According to the Standard Bank Economic Outlook report (2005), the country's population as at July 2003 was estimated to be slightly over one million. Approximately 77 percent of the people live in the rural areas. 44.4 percent of the population as at 1997 was below the age of 15 years and 3.1 percent was over the age of 64 years. It therefore follows that half the population dependent on the 15-64 age groups of people either because they are too young or too old to work.

According to the Ministry of Economic Planning's Poverty Reduction Task Force (2005) approximately 69 percent of the population lives below the poverty line and the worst situation being that 48 percent of the population cannot meet their food requirements.

The HIV/AIDS pandemic has continued to pose a major threat to economic growth and has had severe impact on poverty levels, which have been escalating over the years. The threat of the HIV/AIDS pandemic to the health situation in the country has reached alarming levels, with the country rated as number one in the region with national prevalence rate estimated at 38.6 percent in 2002. This is despite the fact that this has been declared a national disaster by the King. According to the Central Bank of Swaziland 2003/04 annual report this has also contributed to the increased poverty in the country as those who would otherwise be gainfully employed can no longer be employed because of ill health and will cost the state a fortune to treat.

4.2.2 Political Structure

Swaziland is a monarchy and is an independent state whose fully autonomous government falls under the monarch who is the Head of State. The country gained independence in 1968. Swaziland's Westminster based constitution was revoked in 1973 wherein political parties were banned and a system that facilitates both the western and traditional styles of government was designed. This structure incorporates the system known as Tinkhundla which "enables" the people to elect candidates to be their parliamentary representatives for specific constituencies. The country has been without a constitution since 1998 where the country's authorities instituted the Constitutional Review Commission to draft a new constitution. The lack of the constitution raised concerns amongst the country's trading partners especially when in 2003, the present government of the time showed lack of respect for the rule of law. It was during this time that the country was faced with the threat of losing its membership to AGOA.

4.2.3 Economic Structure

The country is wedged between the east of South Africa and the south of Mozambique with limited domestic markets and as a result the country's economic performance depends on export oriented industries and thus is influenced by global trends, commodity prices, and capital and aid flow. Approximately 45 percent of the country's export products are sold internationally and with the ever growing global competition, emphasis is also given to regional markets and South Africa, with its diverse consumer profile, high potential and close proximity is a natural target.

Historically, its economy is dominated by agricultural and agro-processing industries and government services. During the 1980s Swaziland's rate of industrial growth rapidly increased, prompted both by company relocations as a part of disinvestment from apartheid South Africa as well as government attempts to take advantage of the country's relative stability in the region above that of war torn Mozambique and other neighbours to attract investment. Agricultural growth has continued to decline into the 1990s becoming nearly stagnant by 1998.

Due to the country's openness, it remains an integral member of regional economic groupings. Swaziland is a member of the Southern African Customs Union (SACU). According to the 2003/04 Central Bank of Swaziland annual report SACU receipts are the pillar of the country's fiscal revenue, contributing about 50 percent of total revenue in 2003/04. The country is also a member of COMESA which allows the country to export to the other members at reduced tariffs. The Central Bank Report states that this market is essential for the success of trade in the country.

Manufacturing contributes approximately 36.9 percent of the GDP as shown in Table 4.1 mainly from five export oriented industries amongst which is the textile and clothing sector and provides employment for twenty six percent of the labour force second to agriculture. Approximately 80 percent of goods produced in Swaziland are exported. Products dominating exports are sugar-based concentrates and blends, paper products, garments, textiles and sweets. Sugar and citrus products make up 40 percent of total exports. Sixty percent of Swaziland exports are aimed at South Africa and, indeed, 85 percent of its imports are received from there. Trade is critically important to the performance of Swaziland's economy. A third of the country's gross national savings are generated through customs receipts. In addition, receipts from the Southern African Customs Union (incorporating South Africa, Lesotho, Botswana, Namibia and Swaziland) make up 50 percent of the government's annual revenue.

During 1999, manufacturing accounted for 62.8 percent of all foreign direct investment (FDI). While most of this contribution was from reinvestment of earnings as opposed to new foreign ventures in the country, it shows some growth for manufacturing (Central Bank of Swaziland Annual Report: 2004).

Table 4.1: Sector Performance

Sector	**% of GDP**
Manufacturing	36.9%
Government services	15.3%
Retail, hotels and restaurants	10.0%
Agriculture	9.8%
Banking, insurance and real estate	7.5%
Transport and communication	6.0%
Forestry, owner-occupied homes, other services	5.0%
Construction	4.8%
Electricity and water	3.3%
Mining	1.3%
Total	**100%**

Source: Economic Review and Outlook 2002/03-2006/07

According to the Central Bank Report (2004) employment projections for 2004 indicate a moderate increase in formal employment, which is in line with the projected economic growth during the same period. The labour force in Swaziland is characterised by excess supply as the current economic activities fail to generate the much needed job opportunities. Total formal employment is estimated at 96 559 people indicating an increase from 94 645 people employed in 2003. The increase in formal sector employment is attributed to a fast growing labour intensive clothing industry due to Swaziland's membership to AGOA.

4.2.4 External Trade and Balance of Payment

Swaziland has maintained a pegged exchange rate regime with the South African Rand, one to one under the Common Monetary Area (CMA). Albeit limiting any flexibility in monetary policy for the country, such a policy confers advantages in that it facilitates trade and investment flows, inter company business activities and the transfer of funds between the CMA member countries with a minimum of bureaucratic and administrative problems.

The Economic Review and Outlook (2004) states that Swaziland's economy has continued to be export led, with the exports at 86 percent of GDP in 2001. According to the Central Bank report, export earnings grew by 12.2 percent in 2002, to reach E9, 927.4 owing to the strengthening of the Rand/Lilangeni exchange rate significantly reducing local currency export earnings.

Despite a 26.5 percent increase in the country's gross official reserves valued in nominal terms, the country's balance of payments posted an overall deficit which is as a result of persistent trade deficit and recurring deficit in the services account.

4.3 The Case Study

The international trade theory posits that trade is an engine of economic growth. As this mechanistic metaphor implies, trade and economic growth were thought to be closely linked by gears as it were. According to Central Bank of Lesotho Economic Review (2004) one of the major components of this "gear box" is trade policy and the extent to which trade positively influences growth depends on the efficiency of the trade policy. Protagonists of trade argue that liberalised trade promotes growth and the basis of this proposition is the principle of comparative advantage which postulates that each country could prosper first by taking advantage of its assets in order to concentrate on what it could produce best, and then by trading these products for those that other countries can produce best.

This section will look at how the country's economy has performed since 2001 when the country's was accepted as an eligible member in the AGOA. This will be done in comparison with 2000 GDP. Data was collected through the use of secondary data and questionnaires sent out to twenty textile companies based in Matsapha Industrial area and are beneficiaries of AGOA. Unfortunately there was poor response and given the time frame of the research a lot of reliance was on secondary data and other sources of primary data. Trade and employment numbers are the most obvious ways of measuring the impact of AGOA on the country.

Discussions were held with representatives from Swaziland Investment Promotion Authority (SIPA), which is responsible for promoting investment in the country from domestic, regional and international sources, the Ministry of Economic Planning and the Ministry of Enterprise and Employment. Another unfortunate case is that there is little data available at the government offices with regard to information pertaining to the contribution of AGOA to the economy.

4.3.1 Employment

The textile companies employed approximately 29 890 people in 2002, however due to the shut downs that were experienced by the textile companies in 2003 this number reduced by approximately 7000. The table below shows the number of people employed between the years 2000 to date. The companies interviewed however, do not consider Swaziland a cheap investment destination compared to Asian countries and even to Lesotho. The ending of the Multi-Fibre Agreement (MFA) in 2005 will negatively affect Swaziland's foreign direct investment and trade performances.

Table 4.2: Employment Trend Since 2000

Year	Number employed
2000	3 500
2001	15 000
2002	30 000
2003	22 000
2004	20 570*

*This figure is inclusive of number employed in 2005.

The survey established that most of the industry's employees are young women who are semi illiterate and most of whom have no alternate employment opportunities. The industry has given most of them marketable skills which can become useful in other sub sectors as the economy develops. It was also established that these employees support at least five other persons most of whom are in the rural areas and are economically inactive. As a result it may be conservative to estimate that the industry directly or indirectly supports approximately 170 000 persons.

The survey also indicates that a number of the textile industries have closed down during the period 2003 to date. In 2005 alone close to 5 200 jobs have been lost due to closure of some companies and retrenchments. The companies cite the deteriorating Rand/Dollar Exchange rate and removal of global quotas, which allows many Asian countries free access of their low cost goods into international markets including Southern Africa. Prior to 1st January 2005, companies in quota-restricted countries had to purchase quota in order to become eligible to export goods. The direct cost of purchasing this quota was between 20-30 percent on the cost of the item. This saved cost has now been passed onto the overall selling price creating a huge price reduction. The quota also restricted the quantity that could be exported by the quota-restricted countries and these have now been reduced.

The manufacturers interviewed complained that labour costs in Swaziland need to be reduced. They indicated that their presence in the country was directly linked to trade facilitation agreements and, in particular, the promulgation of the AGOA. They also expressed that their best opportunities in Swaziland were in the four years in which the MFA and the AGOA overlapped. They argued that since these ended in the beginning of 2005 it is difficult for them to compete with Asian based producers. Some indicated that they would shift their operations to China and some companies have already closed.

From the questionnaire one can deduce that over E300 million in wages was paid in 2003 by the textile companies. A total of E284 million has been injected in the economy as investment income. The monthly minimum wage for a trained seamstress in Swaziland is E890 (USD148.3 /month), however with overtime this can go up to E1, 000 (USD166.6) per month. However, the survey established that minimum wages for a "casual labourer" are R110.88 per week (about R500 per month); while a first level sewing machinist receives a minimum wage of R163.93 per week (R730 per month). Instead of using minimum wages as a floor, companies tend to use them as a ceiling for wages. In some companies, the minimum wage is not paid. One company paid their workers every fortnight on the 5th and 20th of each month. The result was that the workers were effectively not paid for one month of the year. Overtime is sometimes not paid at all or not according to the law. None of the companies interviewed saw the minimum wage as low or an advantage for them.

The research also established that the textile industry has also not only contributed directly to formal employment but has also contributed to informal employment by fostering the growth of Swazi-owned Cut-make-Trim sub-contracting activity. This sector is wholly dependent on the continued existence of these companies. The existence of the apparel sub-sector has also generated activity in a number of service sub-sectors, notably transport, telecommunications, security, utilities, freight, banking, commerce and catering. However, there are no quantified numbers of the jobs created directly or indirectly by the apparel manufacture. It was also not possible to establish the average wage of the employees in the service sector dependent on the activity in the apparel industry.

4.3.2 Foreign Exchange Earnings

The establishment of more textile factories and the textile sector's improving efficiency cushioned the negative impact of the closure of three textile factories in 2003. According the 2003/2004 Central Bank annual report, by December 2003 export earnings under AGOA had increased by 68.1 percent to E122.2 million. Due to growing demand, export revenue from zippers, cotton yarn increased to E86.1 million and E115.8 million respectively.

However, from the interview with officials from Swaziland Investment Promotion Authority it was established that most of these companies repatriate most of their revenue earnings to their home country. Very little is brought back to the country as reinvestment. In fact what is brought back is just enough to sustain the local business in terms of paying for overhead costs and sustaining the local business.

4.3.3 Trade Between the United States and Swaziland Through AGOA

Table 4.3 below shows the bilateral trade profile between Swaziland and the United States since the beginning of AGOA. Most of the AGOA activity is concentrated in the textile and garment industry and ninety nine percent of these companies are of Asian origin. There are thirty one garment companies that have been established since 1999 to take advantage of AGOA and to date over ten have closed down due to unfavourable economic conditions. Also the overvalued rand/lilangeni exchange rate against a basket of its trading partner's currencies implied that the competitiveness of locally produced goods in international markets deteriorated during 2003. The Taiwanese companies are largely attracted through Swaziland's inclusion as a country eligible for preferential access to US markets through the AGOA and Swaziland's quota free status under the Multi Fibre Agreement (MFA), which came to an end in January 2005.

According to Central Bank of Swaziland 2003/2004 report, export proceeds under AGOA increased by 68.1 percent to E122.2 million in 2003. Growth in manufacturing output slowed down significantly in 2003 following the closure of some foreign companies. Official statistics (Economic Review & Outlook: 2004) indicate that Swaziland has experienced average annual economic growth of 2.7 percent for the years 1997/98 to 2003/4, fluctuating between 1.7 percent and 4 percent with a revised figure of 2.7 percent for 2003. The country enjoyed an 85 percent increase in exports under AGOA in 2002 from 48.1 million U.S dollars to 89.1 million U.S dollars.

There was a downturn in FDI inflows notably in the textile industry, which also contributed to the slowdown in manufacturing growth in 2003 (Central Bank Annual report: 2004). The report further states that Swaziland's membership to AGOA did not assist the country to retain the existing FDI as well as to attract fresh FDI inflows during 2003/04. This development was largely as a result of government's failure to implement a corrective plan to restore investor confidence in the country and remove the growing threats to the country's preferential markets.

Table 4.3: Bilateral Trade between the US and Swaziland

BI-LATERAL TRADE PROFILE: US - Swaziland

Bilateral Sector-Specific Trade between the US and Swaziland.

BILATERAL TRADE PROFILE BETWEEN UNITED STATES AND SWAZILAND					
	Value (1,000 dollars)			Year-to-date Jan.-Jun.	
	2002	2003	2004	2004 YTD	2005 YTD
Agricultural products:					
US Exports to Swaziland	364	1,248	809	439	788
US Imports from Swaziland	7,286	7,641	430	228	7,216
Total AGOA including GSP provisions of AGOA	6,779	6,996	269	123	6,856
- US imports under GSP from Swaziland	6,573	6,746	3	0	6,837
- US imports of duty-free items added under AGOA	206	250	266	123	19
Forest products:					
US Exports to Swaziland	256	33	68	38	7
US Imports from Swaziland	4,449	1,727	375	150	37
Total AGOA including GSP provisions of AGOA	270	52	32	2	2
- US imports under GSP from Swaziland	270	52	32	2	2
- US imports of duty-free items added under AGOA	0	1	0	0	0
Chemicals and related products:					
US Exports to Swaziland	1,672	2,412	2,908	1,585	1,106
US Imports from Swaziland	886	1,332	1,290	349	299
Total AGOA including GSP provisions of AGOA	283	478	732	232	179
- US imports under GSP from Swaziland	96	169	732	232	179
- US imports of duty-free items added under AGOA	187	309	0	0	0
Energy-related products:					
US Exports to Swaziland	0	0	0	0	0
US Imports from Swaziland	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Swaziland	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Textiles and apparel:					
US Exports to Swaziland	16	80	57	49	37
US Imports from Swaziland	89,088	140,510	178,719	74,255	81,634
Total AGOA including GSP provisions of AGOA	73,901	126,369	175,693	72,535	80,374
- US imports under GSP from Swaziland	0	1	35	0	0
- US imports of duty-free items added under AGOA	73,901	126,368	175,658	72,535	80,374
Footwear:					
US Exports to Swaziland	0	0	13	13	0
US Imports from Swaziland	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Swaziland	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Minerals and metals:					
US Exports to Swaziland	6,134	499	2,243	1,449	489
US Imports from Swaziland	102	5,144	15,617	7,185	15,279
Total AGOA including GSP provisions of AGOA	19	47	8	0	63
- US imports under GSP from Swaziland	0	2	8	0	63
- US imports of duty-free items added under	19	44	0	0	0

AGOA					
Machinery:					
US Exports to Swaziland	362	1,784	614	276	264
US Imports from Swaziland	421	241	393	19	1,294
Total AGOA including GSP provisions of AGOA	0	0	81	0	0
- US imports under GSP from Swaziland	0	0	81	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Transportation equipment:					
US Exports to Swaziland	502	195	400	97	273
US Imports from Swaziland	443	59	62	2	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Swaziland	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Electronic products:					
US Exports to Swaziland	1,421	1,110	2,069	669	2,631
US Imports from Swaziland	7,212	387	345	146	109
Total AGOA including GSP provisions of AGOA	0	34	3	0	0
- US imports under GSP from Swaziland	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	34	3	0	0
Miscellaneous manufactures:					
US Exports to Swaziland	70	520	595	178	92
US Imports from Swaziland	4,217	4,510	975	745	0
Total AGOA including GSP provisions of AGOA	0	0	36	0	0
- US imports under GSP from Swaziland	0	0	36	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Special provisions:					
US Exports to Swaziland	242	194	1,932	213	164
US Imports from Swaziland	359	483	564	275	333
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Swaziland	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
All sectors:					
US Exports to Swaziland	11,040	8,075	11,708	5,004	5,850
US Imports from Swaziland	114,464	162,033	198,769	83,355	106,203
Total AGOA including GSP provisions of AGOA	81,252	133,975	176,853	72,892	87,474
- US imports under GSP from Swaziland	6,939	6,970	926	234	7,081
- US imports of duty-free items added under AGOA	74,312	127,005	175,927	72,658	80,393
Source: US Department of Commerce www.agoa.org					

Garment manufacturers put AGOA and tax incentives as the main reasons for their investment in Swaziland. Tax incentives include a five-year tax holiday as well as the ability for individual firms to negotiate lower tax rates. Other incentives as quoted in by Forsyth-Thompson (2003) are listed below:

- The five-year tax holiday or a corporate tax rate of 10% and exemption from withholding tax on dividends for 10 years for qualifying investments (thereafter withholding tax is 15%, reduced to 12.5% for SACU members),
- A rebate of 150% of training costs written against tax,
- Tax-free gratuity for expatriate contract employees of up to 25% of salaries at the end of contract,
- Assessed losses may be carried forward and offset against future profits,
- An initial depreciation allowance of up to 50% on plant and machinery may be claimed in the first year or over a spread of years,
- Financing of the building of custom designed "factory shells",
- Duty free importation of capital goods, new machinery and equipment used in the production of export goods,
- Double taxation agreements with Taiwan, South Africa, Mauritius and the United Kingdom which prevent companies from being taxed by both their own government and the government of the country they are investing in, and
- Full repatriation of profits.

Table 4.4 below shows that real growth rate increased in 2002 as result of textile companies opening during the beginning of AGOA. However, from the year 2003 onwards there was a decline in the real growth rate brought about by closure of a number of the textile companies resulting in a 7000 job loss.

Table 4.4: Major Economic Indicators in Swaziland

REAL SECTOR	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Nominal GDP E'Million	7,439.1	8,412.	9,630.0	10,838.2	12,436.8	14,302.3	16,262.4
Real GDP (factor cost – E'Million	1,398.5	1,449.9	1,480.1	1,504.3	1,562.6	1,607.9	1,615.0
Real growth rate	3.2	3.4	2.1	1.7	3.6	2.9	2.1
Agric./GDP(%)	10.1	10.5	9.8	8.8	8.5	8.3	3.8

– factor cost							
Manuf./GDP (%)- factor cost	36,9	36.0	35.8	35.6	35.0	34.7	34.8
Paid employment ('000)	91.9	93.3	96.3	95.5	98.7	98.6	96.5
Paid public employment	31.9	32.4	32.7	33.2	33.5	33.9	34.0
Paid private employment	60.0	60.9	63.6	62.3	65.2	64.7	62.5
Paid employment growth rate	(0.5)	1.5	3.3	(0.8)	3.4	(0.2)	(3.2)
Average inflation	8.0	5.9	7.3	7.5	11.7	7.4	3.4

Source: Central Bank of Swaziland – Quarterly Review (June 2005)

4.3.4 The Lesotho Experience

Lesotho is a small landlocked and mountainous country with a population of approximately 2.2 million people. The country's primary natural resource is water and like Swaziland its economy is based on subsistence agriculture, livestock, remittances from miners employed in South Africa and a rapidly growing apparel assembly sector. The country is a member of SADC and SACU, which is, contributes the majority of government revenue. The unemployment rate was estimated to be at 45 percent in 2002 and approximately 49 percent of the population lives below the poverty line. The Loti is pegged to the rand, which makes it susceptible to external shocks. Like Swaziland which is also pegged to the rand the strengthening of the rand against the dollar has both advantages and disadvantages.

According to the Central Bank of Lesotho Quarterly Review (June 2005) the country ha strong trade links with the United States. Approximately 60 percent of the country's exports are destined to the United States of America. In January 1995 the WTO put into effect a new agreement that replace the Multi-Fibre Agreement

4.3.5 The Economy since AGOA

Lesotho became eligible to participate in the AGOA in April 2001. According to Rolfe and Woodward (2005) Lesotho is one of the Sub Saharan Africa's leading exporters of apparel to the United States under AGOA. The Lesotho economy has since 2001 been driven by the manufacturing sub-sector, the textile and clothing industry is the key driver of economic activity in the manufacturing sub-sector under the auspices of AGOA (Central Bank Economic Review: 2005). According to the review since 2001 the economy of Lesotho has been registering positive growth rates largely due to the remarkably good performance of the textile and clothing industry. The domestic economy in 2002 registered higher performance than 2001. According to preliminary estimates, real gross domestic product grew by 4.0 percent against a growth rate of 3.5 percent registered in 2001. According to the Central Bank's Economic review (2004) using the 2003 figures the manufacturing sub-sector accounted for approximately 20 percent of GDP. The Governor of the Central Bank of Lesotho attributed this economic growth to expansion of the textile and apparel industry.

According to Larson (U.S Department of State: 2004) Lesotho's exports in 2003 under AGOA totalled nearly $373 million a 17 percent increase over 2002. Rolfe and Woodward state that Lesotho's garment export base to the United States grew from $100 million in 1998 to $455 million in 2004.

Table 4.5 below shows Lesotho's major economic indicators since the beginning of AGOA illustrating how the economy has grown in terms of GDP. The trend in Lesotho is similar to that of Swaziland as the table shows that at the initial stage of AGOA the manufacturing sector experienced a growth of 7.8%, which however declined the following years as result of closure, and relocation of the textile companies.

Table 4.5: Major Economic Indicators in Lesotho

	2000	2001	2002	2003	2004*
1. **Output Growth (percent)**					
1.1 Gross Domestic Product	1.3	3.2	3.5	3.3	3.4
1.2 Gross Domestic Product excl. LHWP		3.5	3.3	3.2	3.2
1.3 Gross National Income- (GNI)		0.2	1.6	6.3	3.9
1.4 Per capita- GNI		-1.9	-0.4	4.1	2.4
2. **Sectoral Growth Rates**					
2.1 Agriculture		0.5	-4.2	-1.9	-0.4
2.2 Manufacturing		7.8	6.9	5.2	5.0
2.3 Construction		1.4	6.9	4.3	4.0
2.4 Services		2.2	2.2	4.4	3.9

* Preliminary estimates. Source: Central Bank of Lesotho Economic Review April 2005.

4.3.6 Employment

Asian FDI accelerated with the passage of AGOA, with Taiwan the largest foreign investor. According to a report by the Lesotho's trade minister as quoted by Charles, Turner and Mullins (2003), the country has greatly benefited from AGOA in that in 2002, 45 000 jobs were created as a direct result of AGOA and over 20 plants were opened and or expanded since the year 2000. Further, a number of companies already operating in Lesotho expanded their scale of operation. According to Charles, Turner and Mullins (2003) an example of this is that before the country became eligible for AGOA benefits, Nien Hsing International had two apparel factories employing 1 800 people. After the initiation of AGOA, the company invested in a mill and another factory and increased employment to 6000 people. As a result of AGOA, between the years 2001 and 2002, 17 companies invested over 130 million Loti (approximately $15 million) in textile and apparel firms exporting to the United States market. Four new apparel factories opened in 2003, one employed 5000 people in the rural areas.

Unemployment however still remains a major problem in the country despite the growth of the manufacturing companies. Unemployment was estimated to be at 40 percent as at the end of 2003 (Lesotho National Development Corporation). Like all apparel producers in developing countries, Lesotho faces the competitive challenges posed by China as exports from China to the United States of America have risen with the end of the MFA at the beginning of January 2005. This has led to a loss of 10, 000 jobs from 2004 through to 2005 as approximately 10 factories shut down during this period.

The closure of the companies is also as a result of the currency fluctuations as a result of the strengthening of the South African Rand against the dollar. According to Rolfe and Woodward the appreciation of the Rand contributed to the increase of labour costs in Lesotho from 120 US dollar a month to 170 US dollar a month. Nduru (2005) as quoted in the Lesotho's newspaper article, garment and textile manufacturers in the country complain that the "labour costs in the country are pricing them out of the market".

4.3.7 Trade Developments Between the United States and Lesotho

According to Charles, Turner and Mullims (2003) progress report on the Impacts of AGOA on Southern Africa, total exports from Lesotho in 2002 to the U.S amounted to approximately 96 percent. Table 4.6 below shows the total exports to the U.S by Lesotho under AGOA and GSP. Table 4.7 shows in detail what has been traded between the two countries and it is worth noting that as in Swaziland's case the bulk of the exports to the US are in the textile and apparel. Whilst there has been a notable increase in trade with the US, only one sector of the economy has benefited which has led to minimal growth of the economy.

Table 4.6: U.S imports under AGOA, 2001, 2002, Jan – June 2002 and Jan – June 2003 (per 1,000 dollars)

Year	2001	2002	Jan-Jun 2002	Jan-Jun 2003
AGOA	129,592	318,029	142,208	166,497
GSP	69	226	169	77

Source: Compiled from official statistics of the U.S Department of Commerce (www.agoa.org)

Table 4.7: Bilateral Trade between the US and Lesotho

BI-LATERAL TRADE PROFILE: US - Lesotho

Bilateral Sector-Specific Trade between the US and Lesotho.

BILATERAL TRADE PROFILE BETWEEN UNITED STATES AND LESOTHO					
	Value (1,000 dollars)			Year-to-date Jan.-Sept.	
	2002	2003	2004	2004 YTD	2005 YTD
Agricultural products:					
US Exports to Lesotho	614	2,631	3,818	1,088	566
US Imports from Lesotho	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Forest products:					
US Exports to Lesotho	3	27	8	8	0
US Imports from Lesotho	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Chemicals and related products:					
US Exports to Lesotho	0	0	16	8	0
US Imports from Lesotho	274	326	145	108	177
Total AGOA including GSP provisions of AGOA	226	74	106	91	123
- US imports under GSP from Lesotho	226	74	106	91	123
- US imports of duty-free items added under AGOA	0	0	0	0	0
Energy-related products:					
US Exports to Lesotho	0	0	0	0	0
US Imports from Lesotho	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Textiles and apparel:					
US Exports to Lesotho	221	166	11	11	0
US Imports from Lesotho	321,049	392,490	456,010	333,117	295,981
Total AGOA including GSP provisions of AGOA	317,803	372,600	447,697	325,770	294,448
- US imports under GSP from Lesotho	0	57	75	75	97
- US imports of duty-free items added under AGOA	317,803	372,544	447,622	325,695	294,352
Footwear:					
US Exports to Lesotho	0	0	0	0	0
US Imports from Lesotho	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0

Minerals and metals:					
US Exports to Lesotho	0	3	68	38	0
US Imports from Lesotho	0	0	9,206	8,575	10,316
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Machinery:					
US Exports to Lesotho	31	1,714	1,254	1,254	30
US Imports from Lesotho	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Transportation equipment:					
US Exports to Lesotho	365	333	94	89	37
US Imports from Lesotho	0	0	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Electronic products:					
US Exports to Lesotho	525	141	95	52	69
US Imports from Lesotho	0	9	0	0	0
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
Miscellaneous manufactures:					
US Exports to Lesotho	3	4	0	0	0
US Imports from Lesotho	0	39	8	2	15
Total AGOA including GSP provisions of AGOA	0	0	0	0	9
- US imports under GSP from Lesotho	0	0	0	0	9
- US imports of duty-free items added under AGOA	0	0	0	0	0
Special provisions:					
US Exports to Lesotho	56	78	116	102	191
US Imports from Lesotho	152	193	1,677	1,507	1,681
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
- US imports under GSP from Lesotho	0	0	0	0	0
- US imports of duty-free items added under AGOA	0	0	0	0	0
All sectors:					
US Exports to Lesotho	1,818	5,098	5,481	2,651	892
US Imports from Lesotho	321,475	393,056	467,047	343,309	308,169
Total AGOA including GSP provisions of AGOA	318,029	372,674	447,803	325,861	294,580
- US imports under GSP from Lesotho	226	130	181	166	228
- US imports of duty-free items added under AGOA	317,803	372,544	447,622	325,695	294,352
Source: US Department of Commerce; www.agoa.org					

4.4 Conclusion

The foregoing chapter was the case study, which shows that both Swaziland and Lesotho embraced AGOA and both experienced an influx of textile companies at the beginning, which saw an increase in employment. However, due to competition from China and India intensified the textile companies closed and relocated leaving thousands of people unemployed. The research also shows that through AGOA trade between the United States and Swaziland increased. This increase however has been concentrated to one sector of the economy. From the research it was noted that whilst there was a high number of textile companies that opened very little has been reinvested into the economy as the companies repatriated most of their profits to their home country. However, given the nature of this investment, this is not a unique case and is expected. The benefits to both countries is that the flooding of the textile industry brought about an increased number of employment and has afforded the workers job skills that can be used in cases of retrenchments and closure of these companies by enabling them start their own small businesses.

CHAPTER FIVE
ANALYSIS

5.1 Introduction

The previous chapter was a presentation of the case study. However due to the poor response received on the questionnaire by the textile companies a comparison on the performance of AGOA in Lesotho to Swaziland was done. The aim was to establish whether AGOA has contributed to the reduction of poverty in the country and to draw on the other countries experiences. This chapter is an evaluation and analysis of the case study and the main aim is to evaluate the impact of AGOA on the economy in terms of whether there has been any positive growth in employment, poverty alleviation, skills transfer and on the gross domestic product. The evaluation will also be on whether AGOA has succeeded in increasing trade between Swaziland and the United States and how beneficial this is to the economy. The focus of this chapter will be on how Swaziland has benefited from AGOA with less focus on Lesotho.

The comparison between Swaziland and Lesotho on how both economies have benefited from AGOA is almost similar. Lesotho is recorded as a success story in attracting a high number of foreign companies to open factories in the country in the SSA. However there are also similarities between the Swaziland and Lesotho countries in the high turnover of closed companies, which have left thousands of employees unemployed. In both cases the Taiwanese companies invested in these countries solely for the purpose of utilising the benefits of AGOA. Both countries have failed to retain the existing companies as evidenced by closure of most of these companies.

5.2 Employment

As stated in the literature review international trade can play an important role in alleviating poverty by providing jobs and driving for economic growth. Trade is an engine for rapid growth, which in turn provides gainful employment to the poor. From the research it can be noted that through the country's participation in the

African Growth Opportunity Act since 2001, there has been an emergence of an export-oriented textile and apparel industry which has created 20 000 new jobs. Notable was that between the years 2000 and 2002 a total number of 30 000 people were employed. This is equivalent to 21 percent of formal employment. The majority of the people employed fall within the semi skilled labour force and are mostly young women who are have no alternative employment opportunities because of their level of education.

According to the Ministry of Economic Planning and Development Poverty Reduction Task Force (2005) Swaziland is faced with a serious humanitarian situation with food shortage and the spread of HIV/AIDS exacerbating the already severe impact of high unemployment, income inequality, increasing number of orphans and rising poverty which puts a strain to the income of these people employed in these industries. The report further states that poverty levels in the country have reached an alarming level with approximately 69 percent of the population living below the poverty line. Whilst this can be attributed to a number of factors such as the persistent drought, HIV/AIDS, the closure of about ten of these companies in 2004 leaving approximately over 9000 people unemployed have also worsened the situation. As noted in the previous chapter, an employee supports at least five other persons most of whom are in the rural areas and are economically inactive. Whilst on the other hand one can argue that the country has benefited from AGOA in terms of job creation, the socio-economic status of the people of Swaziland has not improved as a result of the serious humanitarian need faced by the country thus making it difficult for one to say trade established through AGOA has in effect alleviated poverty.

Whilst the statutory minimum monthly wage for a casual labourer in the country is Emalangeni eight hundred and ninety, the research established that the textile companies pay less than this (Emalangeni five hundred) and thus putting a strain on the income of these employees as the majority live in rented apartments which makes it difficult to sustain themselves and their extended families in the rural areas. The reason for closure by the textile investors that the country's labour force is expensive therefore does not hold water as they pay below the statutory requirement and get away with it since the Government is not doing anything about it. The situation is further worsened by the country's failure to retain the existing foreign investors and attracting new FDI. It is therefore apparent that the companies are not interested in the welfare of the employees and that their only concern is reaping the benefits of AGOA for their personal gain.

This is a similar situation in Lesotho. Whilst the country amongst the SSA countries has experienced a positive growth in FDI due to AGOA which created over 45 000 jobs as a result of the textile industry, unemployment and poverty still remains high. The results also show that the companies believe that the elimination of textile apparel quotas at the end of 2004 has also contributed to their instability for the textile and apparel exporters, which has had a great effect on employment.

5.3 Foreign Exchange Earnings.

There has been very little contribution of foreign exchange earnings from AGOA contributed by the textile companies in the country. From the results of the questionnaire it is apparent that the majority of the companies repatriate most of their earnings to their home country and what is brought back in the country is basically to cover overhead costs. This can be attributed to the poor government policies as there appears that there is no policy in place that ensures that once the company has exported its apparel to the US, the profits made are reinvested in the country. The government of Swaziland established SIPA as an investment promotion authority in the country with the sole purposes of luring FDI. However the non existence of a mechanism that ensures proper coordination of investment policy waters down the efforts of SIPA.

The admittance of China by the WTO has worsened the situation as the Asian companies no longer see the country as a good investment opportunity and see no reason why they should continue their operations in the country. The strengthening of the Rand against the United States Dollar also makes it not worthwhile for the companies to bring their profits back into the country.

5.4 Skill and Technology Transfer

There is little doubt that AGOA export oriented manufacturing textile and apparel companies have created new skills in the country. The employees are given some form of training in the clothing industry, to handle sewing machines, cutting, pressing and the like. However, the full potential for skill transfer and capability building even in the simple activities has not been exploited. Of note however is that supervisory, technical and managerial jobs still remain with expatriates with an exception to the human resources sector.

The textile manufacturing FDI focuses on low technology and low skill activities. The country has a reasonable level of literacy and basic education but lacks the industrial base, industrial capabilities and industrial entrepreneurship that is needed by foreign investors to set up more advanced facilities. This factor limits the country in realising the full benefits that come with AGOA. Therefore whilst there has been some form of skill transfer, due to the limitations of the country's resources there has been little benefit to the employees.

5.5 Growth of the Economy (GDP, BOP)

For economic growth to occur, macroeconomic and political stability and other policies are important. The country is an open economy, which allows trade flows. However the country's system of governance has been identified to suffer from limited practices of the essential desirable elements. As stated in the previous chapter, the country has a traditional system of governance, which coexists, with the modern system comprising Parliament and Cabinet. This set up creates ambiguities and inconsistencies as the traditional system is based on an unwritten Swazi law and is often abused for personal gain and has become a deterrent to foreign investors thus affecting growth of the economy.

Sound economic management is one of the most crucial components of an enabling environment and one that makes a country eligible for AGOA. This is what directly leads to investor and consumer confidence and therefore increase private investment. The country's fiscal position has deteriorated since the 1990's as a result of rapid growth in public spending. The situation is currently unsustainable and constitutes a real threat to both macroeconomic stability and economic vibrancy based on a comfortable level of foreign exchange reserves. As a result of this, whilst there is an increase in the country's exports to the US (Table 4.3) and an increase in nominal GDP during the years 1998-2004, there has been a decline in real growth rate over the same period (Table 4.1). Government spending on infrastructure and high wage bill on government employees has also increased as can be seen that the balance of payment account has a deficit balance.

Estimates by the World Bank and the IMF are that HIV/Aids reduce economic growth by as much as 1.5 percent points and Swaziland has been rated number one in Southern Africa. This on its own has been a detriment in the contribution of AGOA on the growth of the economy.

5.6 Lack of Data Base

Whilst conducting the research, it was noted that government does not have a strong data base on how much AGOA has contributed to the economy which makes one doubt the accuracy and quality of the data obtained. There are inconsistencies between different data sets from the different ministries (Ministries of Economic Planning, Enterprise and Employment and Foreign Affairs and Trade). There is no set measurement in place that looks at whether AGOA is worth the country's while except to look at the fact that AGOA has created over 20 000 jobs for people who would otherwise be not gainfully employed. Other aspects and or benefits that are supposed to come with participation to AGOA have been neglected.

AGOA has not really assisted in attracting new FDI and retaining the existing ones as can be seen by the number of companies that have closed down. Most of the companies that responded to the questionnaire state that the main reason they came to Swaziland was as a result of AGOA. It is clear that at the end of 2008 when AGOA comes to an end, a number of the companies will close down as their continued existence in the country is dependent on the temporary trade privileges in the US under AGOA. This situation has also been worsened by the phasing out of the MFA quota system at the beginning of 2005 and by the admittance of China by the WTO.

This has worsened the competition for these companies as they find that labour costs in China are cheaper.

5.7 Conclusion

This chapter was an analysis of the results obtained from the responses received in the case study. The case study was based on a questionnaire to twenty textile companies based at the Matsapha Industrial area and due to the poor response a comparison to Lesotho performance since enactment of AGOA was done. The analysis indicates that since the enactment of AGOA as a preferential instrument for the SSA countries, Swaziland and Lesotho have been flooded with textile companies mainly of Asian origin. The analysis shows that employment for the semi skilled and semi illiterate was created. It also reveals that whilst jobs were created, this has not been sustainable in that a high number of the companies closed down due to a number of factors. There has been very little contribution towards poverty alleviation, and minimal skills transfer has been seen as most of the companies bring their own experts in the country and less training provided to the locals. The analysis also indicates that the companies do not reinvest in the country but expatriate most of their profits to their country of origin.

CHAPTER SIX:
CONCLUSION AND RECOMMENDATIONS

This chapter is a conclusion and recommendation of the case study as analysed in the previous chapter.

6.1 Conclusion

The dissertation started off with a presentation on the background of the research and continued to present a cogent literature review on the theory of international trade and gains from trade. Chapter three describe the research methodology used in collecting the data. Chapter four was an overview of the Swaziland's political, social and economic structure and presentation of the case study. The case study was a qualitative approach and the use of questionnaire was adopted. Due to the poor response on the questionnaire, which rendered a weak analysis of the case, a comparison on the performance of AGOA in Lesotho was done. Lesotho was chosen because of the similarities between the two countries, both are landlocked and their currencies are pegged to the rand. Both countries are kingdoms and have few natural resources. Their main trading partner is South Africa and is either affected positively or negatively by whatever developments that take place in South Africa.

The case study approach revealed a number of findings on the impact of preferential market instrument (AGOA). It was noted that at the start of AGOA both countries received a high number of FDI in the form of textile companies that opened employing at the most 45 000 semi skilled employees mainly women. Swaziland is an open economy, which makes it easy for the country to attract FDI. Whilst at the start of AGOA a lot of jobs were created it was also disappointing to note that over 10 000 jobs have been lost thus making it difficult to say whether there has been a positive impact of AGOA. What was noted from the research was that most of the companies that were established were only interested in the profits they were making by using cheap labour. This was evidenced by the fact that a number of them repatriated their profits to their home country. The research also revealed that due to weak government policies, the impact of AGOA in the economy in terms of sustainable growth has been very weak. The case study also confirmed the theory that international trade can contribute positively to the growth of the economy, job creation and alleviation of poverty if there is proper governance. This is also in line with one of the conditions of eligibility of AGOA.

6.2 Recommendations

Swaziland like many other developing countries is dependent on trade for its survival. Like most of the SSA countries the country is faced with a high unemployment rate, slow economic growth, exacerbating poverty rate and the increasing surge of the HIV/Aids pandemic. There is a wide gap between the more affluent members of the society and the poorest ones. Findings from the case study show that AGOA has to some extent bolstered trade between the US and Swaziland trade and investment relationship. However, the case study has also shown that the country has not benefited very much from this relationship in terms of sustainable growth of the economy and employment opportunities.

From this it is important for the government to diversify the country exports and intensify its intra regional trade linkages like COMESA, SACU, SADC and others to attain economies of scale and enhance external competitiveness. There is need for the acceleration of the Free Trade Agreement between SACU and the United States. This will assist the country in that the FTA would deepen US economic and political ties to SSA and lend momentum to development efforts in the region. This would also encourage greater foreign investment in Southern Africa and promote regional economic integration. Such an agreement would also help the country since the textile industry now faces stiffer competition with the accretion of China to the WTO and the phasing out of the Multi-Fibre Agreement. The FTA would also secure a guaranteed access to each other's markets between the member countries that would support long term investment and economic prosperity.

Regional integration is as essential to development as access to the US and other foreign countries. Swaziland can benefit more under AGOA by using the infrastructure and economic stability of neighbouring South Africa. The country needs to continue with pegging its currency to the South African Rand. As much as this comes with a lot of volatility as result of the strengthening of the rand, given the size of the economy of Swaziland this is beneficial to the economy. It is also important that the country increases its trade with the other African countries as trade among the African countries can also bring prosperity by allowing them to use their comparative advantages more effectively.

It is clear that whilst there is growth in the exports to the US in terms of trade, it remains insufficient to realise significant poverty reduction as poverty in the country has reached an alarming rate. In addition the HIV/Aids crisis continues to take its toll in the country's growth prospects in that it erodes human capital formation and productivity. It also represents a destabilising fiscal burden both on the revenue and expenditure side. It therefore becomes necessary for the government to explore more privileges provided by AGOA and attract non-apparel FDI in export oriented activities.

Unemployment remains high and the loss of trade privileges in 2008 under AGOA will worsen the situation. It therefore becomes important that the government should concentrate more on empowering the locals in entrepreneurship by promoting the SME sector. SME's lack the necessary skills especially in the industrial engineering field. Management skills are weak and there is little marketing capability. This skill is necessary to narrow the productivity gap and build a competitive edge. It is therefore important for the government to have a policy that supports for industrial training and provide support to the training needs of the SME's when requested to do so. The country needs to emulate such from countries like Malaysia where this kind of support has worked well for the country.

The textile companies import their raw material, which can be expensive due to the volatility of the exchange rate. This on its own is the reason for closure of some of the companies. The companies need to vertically integrate their factories to produce both fabric and clothing. Vertical integration will increase efficiency and profit and also promotes competitiveness of the company.

The experience of AGOA has shown that a commitment to good governance and a positive investment climate is important for economic growth. Swaziland needs to put more effort in promoting economic reform and a stable democracy. Government spending has increased and has created a huge deficit in the balance of payment thus creating a fiscal burden. Lesotho has over the years promoted economic reform and a stable democracy and Swaziland can emulate the same strategy in order to improve on the governance of the country.

In conclusion, as noted from the research it is apparent that AGOA has to a large extent benefited the country in terms of job creation. However, the country is faced with a serious challenge on how to extend the benefits of AGOA beyond the textile sector into other profitable sector given the closure of most of the textile companies since the admittance of China to WTO. The country needs to explore short-term opportunities as well as long term ones by linking with productive sectors in South Africa and other countries in the region. In the short term, further research is needed on how beneficial it would be for the country to diversify its efforts on the glassware and dried fruit sectors that have AGOA preferences.

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APPENDIX

Questionnaire on the impact of AGOA on a pre and post scenario

1. Name of company:
2. Date of Incorporation:
3. Industry: a) Manufacturing - textile
   b) Manufacturing – other (please specify)
   c) Services
   d) Other (please specify)
4. Where do you export?
5. Total Investment of company:
   a) > than E5, 000,000.00
   b) E5 000 000 – E20 000 000
   c) E20 000 000 – E35 000 000
   d) E35 000 000 and above
6. Production:
   i) Turnover before AGOA implementation
      a) > than E1, 000, 000
      b) E1 000 000 – 5 000 000
      c) E5 000 000 – 10 000 000
      d) E10 000 000 and above

   ii) Turnover after implementation of AGOA
      a) > than E1 000 000
      b) E1 000 000 – 5 000 000
      c) E5 000 000 – 10 000 000
      d) E10 000 000 and above

   iii) Are inputs sourced locally/ overseas?

7. Employment:
   a) Total number of production employees (before AGOA) – Females:

Males:

b) Total number of local employees (after AGOA) – Females:

Males:

c) Breakdown of employees: i) production workers:

ii) management (locals):

6. Had there been no AGOA would you have invested in Swaziland? Yes/No

8. Given the disparity of Swaziland salaries and your immediate competitors (in particular China), what impact does this have to your company?

9. In terms of competition is it a cost advantage or disadvantage to invest in Swaziland? (tick what is applicable) cost advantage/disadvantage
Explain

10. Training:
    a) Does your company undertake staff development and training?
        i) in house training programmes
        ii) external training programmes

11. Has AGOA been beneficial to company?

12. On phasing out of special preferential treatment to LDC's on AGOA in 2008 do you see yourself staying in Swaziland? Yes/No

13. Out of your foreign exchange earnings through the use of AGOA, what percentage is: a) re-invested -
    b) repatriated –

14. What would you state as the major contributions of your company to the economy of Swaziland?

15. Have these contributions matched your company's expectations?