

Effects of European Union Rules of Origin on Textile Firms in the Export Processing Zones of Nairobi, Kenya

Dr. Francis Ofunya Afande, PhD., FCIM (UK)
 Dedan Kimathi University of Technology, P.O. Box 657,10100, Nyeri Kenya

Dr. Juma Misiko, PhD.
 Dedan Kimathi University of Technology, P. O. Box 657-10100, Nyeri,

Abstract

The current study evaluated the opinions of the section of business people operating under the EPZ zones , in rating how the European Union (EU) rules of origin contribute to ; reduced market access , diversionary investment, trade deflection , and limit extra sourcing of raw materials for the textile under the EPZ firms in Kenya. The study was guided by the following specific objectives: to analyze the problems that affect efficiency of operations of textile firms under the EPZ in Kenya; to examine effects of the EU Rules of Origin on the Textile firms under EPZ in Kenya; and to assess the extent to which the EU Rules of Origin affect access by Textile firms under EPZ to EU market. The study further evaluated the factors other than the EU Rules of Origin that affect the operations of the firms studied. The data used in this paper was derived from business people managing the textile firms under the EPZ in Athi River, Nairobi. The data was collected through the survey senior managers and or owners. Descriptive statistics were used to present data and qualitative analysis was conducted to give meaning to the results. While there was some evidence of trade diversions, reduced market access, and trade deflection there was no evidence of severe effects of the EU rules on the textile firms under EPZ, whose cornerstone is the AGOA opportunity. However, conditions for origination of textile products under the EU rules such as the Domestic Content and the Sufficient Working conditions is a major setback for Kenyan textile to access the EU market due the fact that the cost structure of textile production in the country that is labor intensive make it to be disqualified under those rules. Furthermore, it was found that the use of more labor to capital in Kenya also affect the competitiveness of the textile products in the international market. In terms of the problems that affect efficient operations of the textile firms under the EPZ it is clear that operations are largely affected by other factors like taxation regime, the infrastructure , trade policies and cost structure which is affected by the cost of power. Implications for the establishment of task force by the government to evaluate the EU rules of origin especially on the textile firms under the EPZ zones .The government should also rethink before accepting the EU proposal of signing a Free Trade Agreement with Kenya. This is because the country will lose a lot in terms of industry base and employment as local firms collapse under the surging weight of EU competition. The current study challenges the existing EU rules on textile products from the African countries and more so Kenya and to some extent the government laxity in addressing the critical issues while negotiating trade terms with the European Union.

Keywords: European Union, Rules of Origin, Export Processing Zones

ABBREVIATIONS

AGOA	African Growth and Opportunity Act
CEECs	Central and East European Countries (CEECs).
EC	European Commission
ECO	Economic Co-operation Organization
EPA	Economic partnership agreement
EPZ	Export Processing Zone
EPZA	Export Processing Zone Authority
ESA	Eastern and southern Africa
EU	European Union
FTA	Free trade area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GSP	General System of Preferences
ICT	Information and Communication Technology
ILO	International Labour Organisation
ISO	International Standards Organisation
MFA	Multiple Fibre Arrangement
MFN	Most Favoured Nation
PRS	Poverty Reduction Strategy

PRSP	Poverty Reduction Strategy Paper
ROO	Rules of origin
SADC	South African development cooperation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USAID	United States Agency for International Development
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

1.0 INTRODUCTION

1.1 Background of the Study

Rules of Origin

Rules of Origin are the criteria used to establish and authenticate the nationality or origin of a product. They are used to determine whether imported products will receive preferential treatment or normal rates of duty, sometimes called Most Favored Nation (MFN) treatment. The origin of imported products is necessary for the application of trade policy measures, quantitative restrictions, anti-dumping and countervailing duties, safeguard measures, origin markings, public procurement, duty drawback provisions, prohibited imports, embargos and the collection of trade statistics. Rules of Origin (ROO) can also be manipulated to achieve other objectives, which include protection of domestic producers of intermediate goods and securing domestic markets. The increased use of ROO has been prompted by the falling importance of MFN tariffs, its replacement with discriminatory non-tariff interventions and the expansion of preferential trade arrangement

The Kyoto Convention (International Convention on the simplification and Harmonization of Customs procedures, 1974) defines Rules of Origin as follows:-The specific provisions, developed by principles established by national legislation or International agreements applied by a country to determine the origin of goods. The agreement on Rules of Origin distinguishes between preferential and Non-preferential Rules of Origin. Preferential rules of origin are defined as, "Those laws, regulations and administrative determinations of general application applied by any member to determine whether goods qualify for preferential treatment under contracted or autonomous trade regimes leading to the granting of tariff preference." On the other hand, Non-preferential rules of origin are: Those laws, regulations and administrative determinations of general application applied by any member to determine the country of origin of goods. Preferential Rules of Origin apply in the North America Free Trade Area (NAFTA), The European Free Trade Area (EFTA), The Economic Community of West African States (ECOWAS), The European Union (EU), The Common Market for Eastern and Southern Africa (COMESA) and the provisions of the African Growth and Opportunity Act (AGOA) which was enacted by the United States of America under which the Kenya EPZ textile industry thrives.

Rules of Origin in EU Context

Implementation of trade policies often require differentiation in the treatment of goods coming from different countries. Countries have their own Rules of Origin, which more often than not vary in substance depending on their purpose. Therefore if a product satisfied the rules of origin in the frame work of East Africa Community, it cannot be assumed that it also fulfill the European Union. The basic structure of European Union Rules of origin states that product originate in a particular beneficiary country if they are – wholly obtained in that country or sufficiently worked or processed there. The wholly obtained category is met when one particular country has been involved in the production. Any smaller addition or input from other country disqualifies a product from being wholly obtained. Examples of what can be considered to be wholly obtained include mineral products extracted from its soil or seabed. Vegetable products harvested there, live animals born and raised. On the other hand sufficiently worked involve some level of manufacturing. The main processes are change in tariff heading, ad valorem criterion. These processes involve non originating materials being used to manufacture products. The European rules also allows bilateral and regional cumulation or both may be used together in combination.

EPZ textile firms in Kenya

Export Processing Zones (EPZ) program came into existence in 1990, following the enactment of CAP 517 Laws of Kenya, which also created the Export Processing Zones Authority (EPZA), as the regulatory body. However, while the program was officially adopted in 1990, production activities did not take off effectively until 1993. The introduction of the program followed several studies that indicated their viability, thus making Kenya one of the early African countries to adopt EPZ in the 1990s. The factors which favored establishment of

EPZs in Kenya included among others, relatively large and dynamic private sector, a low cost but well trained labor force and relatively good infrastructure. Kenya inaugurated her Export Processing Zones program in 1990 as part of the Export Development Program (EDP) being undertaken by the Government to transform the economy from import substitution to a path of export led growth.

EPZs are designed to further integrate Kenya into the global supply chain and attract export-oriented investments in the zones, thus achieving its economic objectives of job creation, diversification and expansion of exports, increase in productive investments, technology transfer and creation of backward linkages between the zones and the domestic economy. Over 70% of EPZ output is exported to the USA under AGOA. However, the EU market is somehow restricted by the application of EU Rules of Origin on Kenyan textiles. The sector is on its way to recovery largely due to AGOA, EU trade and Government support. The existing textile and apparel firms in the country produce a large variety of products. Spinning firms produces yarns (including industrial) and servicing thread while integrated mills produce a wide variety of products including yarn, fabrics (knitted and woven), canvas, school and traveling bags, blankets, sweaters, shawls, uniforms, towels, baby nappies and knitted garments. Garment manufacturers one the other hand produce various types of garments both for local and export market. Textile industry has made sizeable contribution to income generation in rural areas by providing a market for cotton Apparel, yarn and fabric manufacture of cotton unit through spinning to produce yarn, yarn is then weaved or knitted to produce different types of fabric. Spinning operations in Kenya are large scale. Before decline of textiles industry in early 1990s there were 52 textile mills devoted to fabric and yarn production and over 110 registered large scale garments manufacturers. The mills had an installed combined capacity of 115.0 million square meters of fabric. The number of garment manufactures/exporters currently stands at 55, with 29 under manufacture under Bond (MUB) and 26 firms under EPZ program. The number of small scale is not documented. The main exports in the textile sector and textile yarn, fabrics and made up textiles ranging jeans, trousers, pants, shorts, shirts, nightwear, blouses and dresses. The other exports are electronic and medicaments.

1.2 Statement of the Problem

Textiles and clothing contribute significantly to exports in Kenya. This is mainly produced under the EPZ whose cornerstone is the AGOA opportunity. However, the Kenyan textile industry may be under utilized because of the inhibitive nature of the EU originating rules on textile products from Kenya. This may have lead to recently witnessed diversionary investment to other countries, like South Africa, and Tanzania, which enjoys favorable cumulating rules or to countries which have lower percentages for sufficient working conditions or processing criterion for non-originating products within the EU originating criteria . Notably, within the COMESA, region Kenya's textile base is one of the best developed after Egypt. This industry contains both large and small informal sector establishments. The informal sector use simple sewing machines or foot powered ones, but whose products are excluded by the cumulating rules of the Cotonou protocol 1, (Annex X).

In addition , the EPZ factories, which serve as the Kenya's large establishments in garment manufacturing are faced with declining raw materials for textiles particularly cotton, polyester, nylon, acrylic, fibers, fabrics and this automatically affects their compliance to the wholly -obtained origination criteria in the EU context. Furthermore, the manufacture of garment within EPZ depends entirely on imported fabric which is about 80% of the raw material requirements. This is because Kenya does not posses the necessary chemicals that could be produced from the crude oil refinery and secondly an integrated circuit mill has not been locally developed. This has made Kenya import high quality cotton from Tanzania (a non ESA –EPA member) and from Uganda (COMESA Member) yet EU originating rules do not permit regional cumulating rules with these countries on textiles. Its common knowledge that cost of power in the Kenya is rated highest in the region, which has led to escalating textile prices making Kenya textile products less competitive. This non-competitiveness is furthered by non-operational ginneries ,which use old technologies, second hand clothes importation; cheap imports, poor infrastructure among others things, which add up to the exclusion from the EU market due to the restrictive nature of Domestic content (DC) and the Technical Test requirements criterion for originating.

Lack of a better understanding of the effects of EU rules of origin on the textile firms in the Export Processing Zones in Kenya, whose importance cannot be over emphasized, is indeed a knowledge gap the researcher has attempted to bridge. There is also insufficient statistics and empirical data on the subject. This paper therefore surveys the effects of the GSP – ESA rules, under the Cotonou Agreement on the textile industry in Kenya with a special focus on textile firms operating under the EPZ of Kenya.

1.3 Objectives of the study

1.3.1 Overall objective

The overall objective of the study was to examine the effects of EU originating rules on the textile on firms operating under the EPZ in Kenya.

1.3.2 *Specific Objectives*

- (i) To analyze the problems that affect efficiency of operations of textile firms under the EPZ in Kenya.
- (ii) To examine effects of the EU Rules of Origin on the Textile firms under EPZ in Kenya
- (iii) To assess the extent to which the EU Rules of Origin affect access by Textile firms under EPZ to EU market.

1.4 **Scope of the Study**

The study covered all the 37 textile firms operating under the EPZ of Kenya in Nairobi's Athi River Industrial Area (Annex II). The study respondents were the Chief Executives Officers of the various firms, who are also responsible for providing the strategic direction of the firms. The study focused on the EU rules of origin on the textile products coming from the textile firms operating in Kenya. This was examined in order to establish the extent to which such rules of origin affect access by textile industries to EU markets; causes trade deflections; leads to diversionary investments; leads to the reduction of the terms of trade and its influence on sourcing of raw materials or inputs for the purposes of cumulating rules. The study was carried out between August and October, 2007.

2.0 **LITERATURE REVIEW**

2.1 **The concept of Export Processing Zones**

Export processing zones (EPZs) represent a policy instrument frequently used by governments to promote trade and foreign direct investment (FDI). EPZs have become increasingly common as countries have shifted from import-substitution policies to export-led growth policies. According to the International Labour Office (ILO), the number of EPZs has increased exponentially from 79 in 25 countries in 1975 to some 3,500 zones in 130 countries in 2006. In 2006, EPZs employed an estimated 66 million workers, 26 million of which were employed in EPZs outside China (EPZ China, 2006). EPZs are found throughout the world and prevalent in both developed and developing economies. The proliferation of EPZs implies that growing shares of international trade, investment and labor are affected by the various policies applied in these zones. It is hence pertinent to monitor this trend and study its implications.

The major reason for the proliferation in the use of this policy tool is the seeming success of EPZs in some countries and the confluence of four trends: (i) the increasing emphasis on export-oriented growth; (ii) the increasing emphasis on FDI-oriented growth; (iii) the transfer of production of labor intensive industries from developed countries to developing countries; and (iv) the growing international division of labor and incidence of global production networks.

EPZs have evolved substantially since their first inception and have diversified both in terms of form and scope. Geographically, EPZs have evolved from fenced-in zones to include anything from single factory/company zones to zones encompassing a much wider area. While EPZs used to target foreign investors, increasingly both foreign companies and domestic companies coexist in the zones. The types of activities have also evolved: traditional production of goods such as textiles and clothing is still common but many new zones specialize in particular *goods* sectors such as electronics and chemicals, or in *services* sectors such as IT and financial services. In addition, ownership patterns have changed. Initially EPZs were owned and managed by governments but there is increasingly private involvement. The requirement that all production must be exported has been relaxed in many new zones and the supply of goods and services are increasingly allowed in the domestic economy upon payment of duties.

In addition, the trade and investment incentives that are offered vary greatly and include e.g. exemptions of import and export duties; streamlined customs and administrative procedures; liberal foreign exchange policies; free repatriation of profits; tax exemptions; subsidies and more flexible labor market regulations, which sometimes include exemptions from national labour laws and regulations. The diversity of EPZs is matched only by the diversity of terminology used by analysts.

While many EPZs have had a positive impact on the host economy, not all EPZs have been successful and there is no consensus view of the relative merits of EPZs. Some analysts have emphasized that EPZs can help attract FDI, promote trade and thus generate employment and foreign exchange earnings. FDI and local production in turn may generate economic linkages to other domestic industries and spill-over effects through transfers of management know-how and technology. Other analysts have cautioned that the costs, which include investment in infrastructure, forgone tax and tariff revenue, and administrative support costs, may exceed the benefits. While there are well documented success stories, many EPZs have not managed to achieve their objectives of attracting FDI, promoting trade and generating new employment.

The debate on the merits of EPZs touches on a host of issues: from social issues, like labour rights (including the effect on women and children), environmental protection and urban planning, to macro-economic issues related to their impact on government revenue, employment, trade and foreign exchange earnings. While acknowledging the relevance of all these issues, the objective of this paper is narrower. It first provides an

overview on the current use of EPZs and focuses primarily on the economic and trade rules aspects of EPZs. The information used is mainly retrieved from existing databases and previous studies. Some of the material has also been obtained from authorities in EPZs/SEZs.

2.2 Rules of Origin

An overview

Rules of origin (ROO) form a critical component of any trade agreement or preferential trade area. They describe the conditions used for the determination of a product's origin, thus setting the parameters for preferential access to a given trade partner's domestic market. Rules of origin can thus promote or curb trade, depending on the restrictiveness of the given origin rules applicable. For the 78 ACP countries, all of which have a long association with the European Union, the latter also forms a key market for their exports. Preferential trade has been governed mainly by the provisions of successive Lomé Conventions, which offered ACP countries non-reciprocal market preference.

In 2000, the 4th Lomé Convention was replaced by the Cotonou Agreement; its ROO however remaining largely unchanged from those contained in its predecessors. By being non-reciprocal in nature rather than the result of bilateral negotiations, they contained provisions which in the view of ACP stakeholders were often overly restrictive if not protectionist. The Cotonou Agreement sets the stage for a re-negotiation of the formal trading relationship between the EU and ACP countries, specifically its ROO, to form part of new Economic Partnership Agreements (EPAs) which are to be concluded by 2008. ROO negotiations are set to begin at the end of 2005 or by early 2006 at the latest. (Cotonou Agreement, 2000)

Rules of Origin: their role in international trade

EC (2005a) noted that Rules of origin play an important role in the implementation of trade policy. They are used to determine the 'economic nationality' rather than merely the geographic nationality of goods, a distinction that is important especially where a product is made up of materials sourced from more than one country. Since trade policy often requires market preferences to be made available only to certain countries, for example the parties to a trade agreement, an absence of origin rules would lead to problems with transshipment. Known as trade deflection, products exported to a specific country could then be channeled through third countries having more favorable market access to a given export market (that of the final destination), without any economic value adding and associated benefits taking place in these preference-receiving third countries.

In the determination of origin, the distinction between economic and geographic source is important since the proliferation of global trade has meant that products seldom are produced in one location alone. Regional and country-specific competitive advantage, say in the manufacture of textiles, has meant that clothing production worldwide is increasingly utilizing materials produced by a small number of highly competitive countries. ROO define the minimum processing that must be undertaken locally (in the preference-receiving country) in order for a product to be deemed to be of the economic nationality of that country. Geographic nationality, being the country from which the final product is shipped to its destination, does not qualify in this determination of origin.

Technical aspects of rules of origin regimes

There has been a proliferation of preferential trade arrangements in recent years, especially between developed and developing countries. While all preferential-trade rules are governed by a set of origin rules, the technical composition of these rules differs across trade regimes. Common among them is the fact that unless goods are wholly produced in the exporting country, they must be "substantially transformed" in order to benefit from given trade preferences. It is however in the application of the "substantial transformation" principle that ROO differ from each other (EC,2004).

2.3 Country of Origin Rules for Textile and Apparel

Where a product contains no materials or processing from outside the EU area than there should be no difficulty in conferring originating status. Where a product contains material or processing from countries not party to the ACP-ESA it is then necessary to set limits within which such inputs are allowed. A good is deemed as originating from a given ACP-ESA country if 'sufficient working or processing' of that good has taken place therein. Sufficient 'working or processing' is in turn typically determined by either (a) a change in tariff classification rule, (b) on the basis of a minimum allowable value of intermediate imports as a certain percentage of the value of the final product, or finally (c) on the basis of conforming to specific production processes. It is worth noting that for any given ACP-ESA country it is usually the case that each of the above rules are employed depending on the product, where products are dealt with 2 For example the main text of a typical Association Agreement between the EU and a Barcelona process country is between 20-30 pages long, while the annex covering the rules of origin at the 6-digit HS level of aggregation is close to 100 pages with a high degree

of desegregation.

Within any PTA the determination of the origin of a given good is needed in order to establish whether the good is eligible for a reduction, or an exemption from customs duties. Preferential origin rules exist in order to prevent third country imports from taking advantage of the concessions which have been made by the parties to the preferential agreement (i.e. trade deflection). Rules of origin are thus a key feature of *all* preferential trading agreements (PTAs) yet, surprisingly, there is but relatively small theoretical literature on the possible impact of rules of origin and of the “cumulation” of such rules, and an even smaller empirical literature. The theoretical literature identifies that rules of origin and the cumulation of those rules can impact significantly on patterns of trade. This paper examines that proposition by providing the first serious empirical evaluation of rules of origin in the European context, where the methodology involves using an augmented gravity model. An empirical evaluation of rules of origin is particularly relevant given the growing awareness of the impact and use of those rules for protectionist purposes. That growing awareness and use arises from a combination of several factors. First the significant reductions in customs duties, and non-tariff barriers achieved under the auspices of the GATT and then WTO have brought to the fore the importance of other instruments of trade policy. This applies both to the use of restrictive rules of origin as a direct form of protection, but also indirectly where the absence of origin has been used to justify the use of anti-dumping duties (Vermulst (1992).

Second, the multiplication of, frequently overlapping, preferential trade agreements each of which with its own and differing rules of origin has highlighted the possible distortions created by those rules and of the incompatibilities between them. Third, the perception that rules of origin are an issue of “technical detail”, coupled with and perhaps driven by their technical opaqueness, has meant that less attention has focused on their use as This has, for example, been a major stumbling block in the process where the issue has been the compatibility of the process rules of origin with the EU-Association agreement rules of origin, and with the proposed implementation of the Pan-European rules of cumulation of rules of origin. Protectionist tools. It has perhaps also made it easier for firms/industries to influence the formulation of those rules (see eg. Hoekman (1993), LaNassa (1995)). Third, changing patterns of multinational production referred to variously in the literature as “fragmentation”, “vertical specialization”, or “outsourcing” (Hummels *et.al.* (2001), Jones & Marjit (2001), Deardorff (2001)) has focused more attention on intermediate trade and on barriers to such trade. In this paper we address the issue of the impact of rules of origin and their cumulation, by focusing rules of origin in the context of EU - partner country PTAs.

The country of origin rules for textile and apparel products consist of five mutually exclusive rules that are applied sequentially in the order summarized as:- the country of origin of a textile or apparel product is the single country in which the good is wholly obtained or produced; alternatively, the country of origin of a textile or apparel product is the single country in which the foreign materials that are incorporated in the good undergo a designated change in tariff classification and/or meet any other applicable tariff classification shifts as prescribed in the Customs Regulations; alternatively, the country of origin of a textile or apparel product is the single country in which the good was knit to shape or the good was wholly assembled if the good was not knit to shape; alternatively, the country of origin of a textile or apparel product is the single country in which the most important assembly or manufacturing process occurred; alternatively, the country of origin of a textile or apparel product is the last country in which an important assembly or manufacturing process occurred.

Rules of origin are laws, regulations and administrative pronouncements that determine the origination of a country's goods. This origin criteria confers preferential or non-preferential treatment on certain products, by having the exporting country to pay reduced duties or just duty-free to the importing country. This determines the cost of a product and thus its competitiveness in the international markets. On June 2000, Kenya with other African Caribbean and Pacific (ACP) countries signed the Cotonou partnership agreement (CPA) with the European Union. The Agreement provides for the establishment of a reciprocal LOTO compatible trade regime to replace the non-reciprocal LOME convention that has been the hallmark of ACP-EU trade arrangement for over three decades. Kenya exports the products to the EU under the Cotonou rules of origin. However, the very nature of this rules of origin and the Kenyan textile industrial context, remains a major contradiction for free trade and preferential trade. It has set up bottlenecks, which continue to hinder Kenya from utilizing its full potential for the EU market exports.

EU rules of origin for cotton clothing stipulate that the manufacturing process must ‘manufacture from yarn’, implying that imported cotton fabric cannot be used and that the yarn must be sourced locally. For many small developing countries this rule is very difficult to satisfy and often precludes the use of preferential access to the EU market under the GSP. In typical US rules of origin a more restrictive effect is achieved by a change of tariff heading rule which precludes the use of imported cotton fabric, imported yarn and imported cotton thread. The rule requires that production of cotton thread, the spinning into yarn, the weaving into fabric and the cutting and making up into clothing must all be undertaken locally. These rules are often further complicated by additional requirements. In US rules of origin, for example, suits, jackets, and coats are also subject to rules relating to the content of the visible lining which must be formed from yarn and finished in the country of export.

Thus, imported material for the lining cannot be used. An analysis of the EU rules of origin provides a clear picture, of why Kenya has to rethink the rules if it has to access the EU markets. For instance, the textile products such as; wool, fine or courses animal hair; horse hair ;yarn and woven fabric cotton and generally textile and clothing etc fall in a sector which has growth potential in Kenya as long as constrains on production of raw materials are removed. Large number of formal enterprise (1888) exports mainly to ESA, insignificant exports to EU.

2.4 Impact of EU Rules of Origin

While rules of origin need to be in place in order to preserve the existing external protection of countries within a ACP-ESA countries, depending on how those rules are formulated, they can also serve to increase that level of external protection⁴. The actual impact of rules of origin will then depend on a number of factors, such as the nature of the underlying market structure (Vousden,1987; Krishna and Krueger,1995), or on how “sufficient working or processing is defined”[Krishna & Itoh (1988)], and of course of the costs of not being able to fulfill the originating requirement – in particular the height of the importers’ tariff (Hoekman, 1993 and Gasiorek et.al., 2002).

Common threads in these analyses are that restrictive rules of origin do impact on patterns of trade and production by impacting on the composition of intermediate usage, and those countries are increasingly using rules of origin in this fashion. There is then also a literature which examines the welfare impact of rules origin and considers issues such as the circumstances under which restrictive rules of origin may be welfare increasing eg. Mussa (1984), Falvey & Reed (2002), Panagariya & Krishna (2002), the interaction between the welfare effects and the political viability of a given FTA (Duttagupta & Panagariya, 2002), as well as the impact on firm behavior (Ju & Krishna, 1998).

For instance, in order to see the effect that restrictive rules of origin can have consider the following simple characterization: Suppose there are four countries, the EU, countries B and C and the Rest of the World (ROW). Assume initially that the EU signs an FTA with country B (with rules of origin), and another FTA with country C (with identical rules of origin). Those rules of origin can easily serve to constrain trade between countries B & C, as they may be liable to tariffs on their exports to the EU if they fail to meet the originating requirements. Suppose, therefore that rules of origin are in this³ Examples that are often cited here concern the role of the US automobile industry in drawing up the relevant NAFTA rules of origin, or the role of textile producers in both the EU and the US rules.⁴ For an overview of the possible impact of rules of origin see Hoekman (1993) or Falvey & Reed (2002) manner *constraining*, then final goods producers need to weigh up the difference between the cost of imported inputs and the possible costs of access to partner country markets.

There are then several possible outcomes. First, final goods producers could choose not change their sources of supply. Where they do not meet the origin requirement they would then continue to pay tariffs on exports to the EU, hence reducing the extent of the tariff reduction implied by the FTA. Secondly they could choose to change their sources of intermediate supply. This means either supplying a greater proportion of intermediates domestically which implies *trade suppression* or, supplying a greater proportion from the EU which implies *trade diversion*. Each of these latter two are welfare reducing.

2.5 Implication of the EU Rules of Origin on Textile products from Kenya

The principal form of diagonal cumulation between the EU and its partner countries is known as the pan-European system of diagonal cumulation. The pan-European system into force in 1997 and applies to the agreements between the EU, the EFTA countries (Norway, Iceland, Lichtenstein, Switzerland), and the Czech and Slovak Republics, Hungary, Poland, Slovenia, Romania, Bulgaria, Estonia, Latvia and Lithuania, as well as with Turkey (since 1999)⁵. As part of the Barcelona process the EU has also signed Association Agreements with a number of Southern Mediterranean countries⁵ For a detailed discussion of the pan-European system see Driessen & Graafsma (1999).⁶which include Morocco, Tunisia, Algeria, Egypt, Jordan, Israel, the Palestinian Authority, Lebanon, Cyprus and Malta. These agreements typically allow for bilateral cumulation, e.g. That Egypt can use EU intermediate inputs and then export the good back to the EU without paying tariffs, and vice versa. But diagonal cumulation is only allowed in the agreements with Morocco and Tunisia, though this has not been implemented.

The EU is extremely keen to widen the geographical application of the pan-European system as it sees this as central to the development of trade both with its partner countries, but also between the partner countries. Implicitly if not explicitly, therefore, the EU is accepting that the lack of cumulation restricts trade between the non-cumulating countries. Hence, in the context of the EU’s relationship with its’ Mediterranean partners cumulation of rules of origin is increasingly seen as playing an important role. At the Toledo ministerial meeting in March 2002, it was agreed that in principle each Mediterranean partners would adopt the pan-European system. So the picture is one of a group of EU partner countries (CEFTA, EFTA and the Baltic states)becoming part of a unified system of diagonal cumulation in 1997, and a group of other countries currently not part of the

system but hoping to join in the future. Section 2 outlined how cumulation of rules of origin can impact on trade flows, and section 4 of this paper examines this proposition formally.

Before turning to that formal analysis we first provide some stylized evidence which suggests the possible role of cumulation. If the lack of diagonal cumulation is indeed empirically important than it seems reasonable to suppose that introducing the pan-European system in 1997 would have impacted on trade flow. First, one might expect an increase in trade among cumulating countries, but with a particular growth of intermediate trade relative to final goods trade. Secondly one might expect a differential pattern of changes of intermediate imports across sources of supply around the time of cumulation. Note that in order to do so, a given Mediterranean partner would have to sign free trade agreements with all the other pan-European countries, and adopt identical (i.e. the pan-European) rules of origin. To examine whether this is a *prima facie* case for the impact of cumulation consider Table 2.1 where we present data on imports for Poland, Slovenia and the Czech Republic. For each country the table gives the imports of intermediates and final goods over time from three sources: the EU, the other pan-European countries (CEFTA, EFTA and the Baltic states), and the rest of the world. For each year and category the imports are given relative to the value of imports in 1997. The aim is then to see if there is any change across the years, and across categories. Of course there are a number of factors other than cumulation that will have impacted upon trade flows (e.g. tariff liberalization, exchange rate movements). However, unlike cumulation these should impact similarly on both intermediate and final goods trade.

Hence we first compare the changes in intermediate and final good flows for each supplier. If we look at Poland it can be readily seen that imports of both final goods and intermediate goods from the other Pan-European countries steadily rose prior to 1997. After 1997, Polish imports of intermediates continued to rise (by 27%) while imports of final goods fell marginally. A similar though more marked pattern is true of Slovenia. Prior to 1997 there was a much more rapid rise of final goods imports than intermediate good imports, whereas after 1997 final goods imports declined, while intermediates continued to rise. For the Czech Republic there is a similar though less pronounced pattern of changes.

Similarly if we compare intermediate and final goods imports from the EU, we can also see orientation towards intermediates for both Slovenia and the Czech Republic. For each of these countries intermediate imports from the EU continued to grow after 1997, whereas final goods imports fell. If we now compare the pattern of imports across sources of supply the pattern is slightly more mixed. For Poland there was a greater increase of intermediates imported from the rest of the world, but this is not true of final goods. For Slovenia the reorientation towards intermediate goods is matched by a reorientation towards both EU and other Pan-EU countries. Finally for the Czech Republic the greatest shift in intermediates is towards the other Pan-EU countries, and with respect to the rest of the world there is the largest decline in final goods imports.

Table 2.2 provides a similar set of data but now for two specific sectors: electrical machinery (HS85) and furniture products (HS94) both of which are mixed final/intermediate goods sectors. If rules of origin, and changes in those rules are likely to have an impact than one would expect this to be at the sectoral level, and therefore the use of aggregate data may mask some of the impact. It is of some interest therefore to examine the changes in trade at a more detailed level, though recognizing that changes in other trade barriers and notable tariffs are also likely to have had an impact. The changes in the pattern of trade after 1997 at the sectoral level are quite striking. For electrical machinery for Poland and Slovenia there is a big reorientation of imports towards imports from the EU. For the Czech Republic the change in imports is focused primarily on the other Pan-EU countries, and imports from the rest of the world, and this is accompanied by a fall in imports from the EU itself. For the Furniture sector, there is a marked reorientation of trade away from imports from the EU in the period after 1997 for all three countries, and this is accompanied by a marked rise in imports from the other Pan-European countries (for Poland) and from both the other Pan-Europeans and the Rest of the world (for Slovenia and for the Czech Republic). In short, it seems quite clear that after 97 there was a shift in the composition and sources of supply of imports for these countries. This is true at the aggregate level and even more so with regard to particular sectors. Not surprisingly there will be a number of factors explaining these changes, but equally not-surprisingly it is likely that diagonal cumulation also had a significant impact.

Presently, Kenyan textiles enter the EU market based on the Cotonou Agreement Rules of Origin as contained in Annex V of the protocol to the Agreement. The protocol lays down the general criteria in its trade regime. The criteria relate to products that are wholly owned in the ACP states, incorporating non-originating materials and which have undergone sufficient working or processing in ACP state, or made of materials wholly obtained or sufficiently worked or processed in two or more ACP states. The EU-GSP scheme recognizes two types of cumulation which are bilateral & regional. Of concern, is the regional cumulation rule, which does not apply to Kenya or the ESA countries. More so what constitutes sufficient working or processing under the Cotonou protocol 1, may affect cumulation and value added processing investments in the textile industry. Despite the existence of industrial capacity to expand production and availability of the potential to produce local raw materials, the EU and Cotonou origination rules have stringent exclusionary rules applicable to the textile sector.

The sufficient working conditions and the local content rules attract lighter percentages in the EU. For instance, in the textile and textile articles, the Lome Agreement lists working or processing requirements to be carried out on non-originating material to confer origin. With respect to cotton, not corded, combed or bleached, sufficient working requires the product to be manufactured from raw cotton and the value should not exceed 50% of the ex-works price of the product. Kenya is not a self-sufficient country with regard to raw materials used in her value added textile industry. It ends up, extra-sourcing raw materials which are deemed non-originating products to the extent that they originate from countries outside Kenya and the ESA- EPA configuration.

On the other hand, the tolerance rule (which would permit the use of raw materials by non-cumulation countries to be incorporated in final products) with EU for textiles is very small. More so, most EU trade agreements do not contain drawback provisions. The essence of drawback provisions is to restore equal treatment between the production for domestic markets and for exportation. Finally, the issue of outward processing at times allows a next to final product to be subject to some processing outside the cumulation area without losing its originating status. The Cotonou of EU Agreements does not accept outward processing in their definitions of the rules of origin. This denies Kenya, access to superior technology for processing and value added plants elsewhere, which may be cheaper to produce such products like textile. Of concern, is the special status South Africa enjoys on cumulation rules in the Cotonou regime.

Materials originating from South Africa are considered as originating in the ACP, when incorporated into a product obtained there. Textile for instance, enjoys 3 years cumulation rules according to East Africa TDCA. Tanzania is a member of SADC, EPA and EAC, meaning that trade deflection in textiles may occur from Kenya through this route.

In order to avoid such situations, materials from neighboring countries and developing countries; though have separate cumulating rules should include not only non-ACP countries but also non- ESA – EPA countries like Tanzania. Article 61 of the Cotonou Protocol 1, confers origin to articles of apparel and clothing accessories, knitted or crocheted, or those obtained by knitting together or otherwise assembling, two or more pieces of knitted or crocheted fabric, which have been either cut from or obtained directly to form. This confer of origin occurs when working, processing carried out on non-originating materials, constitutes making up.

Further to the Cotonou protocol 1, Annex X of the agreement 1; excludes textile products from the cumulating procedure with certain developing countries, Kenya being one of them. Such textile products include, jerseys, pullovers, slippers, waist coats, tracksuits; cardigans, beddings; jackets and jumpers, etc knitted or crocheted. Also excluded for cumulating rules are women's or girls' woolen trousers, slacks of wool or cotton, or of man-made fibers, tracksuit linings of cotton or of man-made fibers.

The EPZ Zones of Kenya has attracted a lot of investments from, Germany, USA Sri-Lanka, Korea, Italy, and Britain that take advantage of the AGOA opportunities in the textile markets in USA. However, the expansion and growth of the textile based EPZ's industry may be largely affected by the EU rules of origin, which is the premise of the study. On June 2000, Kenya together with other African Caribbean and Pacific (ACP) countries signed the Cotonou partnership agreement (CPA) with the European Union. The Agreement provides for the establishment of a reciprocal LOTO compatible trade regime to replace the non-reciprocal LOME convention that has been the hallmark of ACP-EU trade arrangement for over three decades. Kenya exports the products to the EU under the Cotonou rules of origin. However, the very nature of this rules of origin and the Kenyan textile industrial context, remains a major contradiction for free trade and preferential trade. It has set up bottlenecks, which continue to hinder Kenya from utilizing its full potential for the EU market exports.

EU Rules of Origin on Access to the EU Market

Many studies either cite Herin (1986) who calculated that MFN tariffs were paid on 21.5% of EFTA's imports from the EC, and 27.6% of EC imports from EFTA because of the failure to meet the origin requirements, or give anecdotal evidence. More recently, Mattoo et.al. (2002) assessed the African Growth and Opportunity Acts and suggest that the benefits to Africa would have been approximately five times greater without the restrictive rules of origin that were in place (in particular with regard to yarn). Also Brenton and Machin (2002) provide convincing arguments and supporting evidence suggesting that the restrictive rules of origin applied by the EU result in tariffs being paid on substantial proportion of supposedly tariff-free GSP imports.

The absence of empirical work is no doubt a function of the technical capacity of the application of those rules coupled with the methodological difficulties of separating out the effects of restrictive rules of origin. However, by focusing on the cumulation of rules of origin, and in the change in the geographical application of those rules in 1997, we are able to use an amended gravity model in order to provide empirical evidence on the possible degree of restrictiveness of rules of origin. A standard gravity model describes bilateral aggregate trade flows between two countries, *i* and *j*, as a function of the levels of GDP in countries *i* and *j*, their respective populations, the distance between and *j*, other geographical factors such as adjacency, cultural similarities, and preferential trading links. Gravity models have been used widely in this context (see for example Frankel, 1997;

Winters & Soloaga, 2000) and at least partial theoretical justification for such models can be found in the work of Bergstrand (1985), Helpman & Krugman (1985), and Deardorff (1997). Gravity models are usually supplemented with dummy variables in order to try and capture other factors, and in particular to impact upon trade flows (e.g. regional trading arrangements, or dummies to capture cultural affinities between countries that share a common language).

In our work we have amended the standard gravity model in order to evaluate the potential impact of the cumulation of rules of origin. In particular the aim is to explore whether the lack of cumulation between countries may act as a constraint on trade between them. Or specifically, the objective is to determine whether trade is lower in those cases where an importing country (e.g. Tunisia) has a PTA with the EU but there is no diagonal cumulation between that importing country and the exporting country (e.g. Poland). We therefore introduce a further dummy variable, which is designed to capture this possible effect. Note that, when considering the role of diagonal cumulation here, one is necessarily considering the relationship between three countries or country groupings: the exporting country, the importing country, and those countries which are part of the system of diagonal cumulation (in this case the Pan-European system).

Given this three-part relationship which underlies diagonal cumulation the ROO dummy takes a value of *advalorem*, if the importing country has a preferential trading agreement with the EU, without diagonal integration (Pan-European) then cumulated rules of origin with the exporting country, and a value of otherwise. Our estimations are based on trade flows between 38 countries - all of the EU countries, 3 EFTA countries (Iceland, Norway and Switzerland), the CEFTA countries, the Baltic States, 6 countries taking part in the Barcelona process (Turkey, Jordan, Israel, Egypt, Tunisia, Morocco), as well as the US, Canada, China, Japan and Australia), and were carried out on the basis of total trade, manufacturing trade, and intermediate goods trade for the years 1995 and 1999.

The origin of a product can have significant bearing on its cost in the import market and therefore its competitiveness. This is referred to as the depth of the origination rules namely the extent to which the origin rules facilitate market access. In the Kenya EU context the critical question is to what extent do the rules of origin permit Kenya textile products to enter and access the EU market? Presently, Kenyan goods enter the EU market based on the Cotonou agreement rules of origin as contained in Annex V of the protocol of the agreement. The textile and textile articles fall under section XI of the protocol 1. in pursuant to this article; the list of working or processing conferring the character of ACP origin on a product obtained when working or processing is carried out on textile materials originating in developing countries (like Kenya), excludes some finishing operations as part of making up which would qualify, for preferential treatment for Kenyan textile products in the EU markets. However, it is possible, that in a manufacturing operation, the accomplishments of finishing operations especially in the case of a combination of operations, is of such importance that these operations must be considered as going beyond simple finishing. In these particular cases, the non-accomplishing of finishing operations will deprive the making up of its complex nature.

Annex X to protocol I; excludes textile products from the cumulating procedure with certain developing countries, Kenya being one of them. Such products which are hand woven in Kenya and use labor intensive efforts, with simple technology are excluded by the value addition criterion rule. Such textile products which are excluded by this rule include; Jerseys, pullovers, slipovers, waist coats,, twin seats, cardigans, bed-jackets, jumpers, with cheaters, waist jackets and the like knitted or crocheted. Others textile products excluded by this protocol; are; men's or boys woven breaches, shorts other than swimmers and truckers, women or girls trousers, and slacks of wool ;of cotton or of man-made fibers and , lower parts of the track suits with lining. Interestingly, South Africa enjoys cumulating rules for three years, on textile and other products, with European Union. South Africa is a member of SADC, where Tanzania, a member of EAC (to which Kenya is part) may encourage, unfavorable trade deflection between Kenya and South Africa, via Tanzania. On the other hand, EU-GSP schemes recognizes regional cumulating rules, which does not apply to Kenya or the ESA countries since article 72 (s) 30 of the scheme defines the regions that qualify for cumulating rules and that definition does not include African states.

Analysis of Kenya's industrial structure and export potential; reveals that most export products from Kenya do not fall under wholly obtained criteria. The use and adoption of the wholly obtained criteria has an impact on market access. This means that the wholly obtained criterion is inappropriate for the non-agricultural manufactured products like the textiles and clothing. The insufficient working or processing conditions under Cotonou agreement means that most production takes place in more than one country. The Cotonou agreement provides a host of negative list of sufficient working conditions. For instance, in Kenya, the textile industry has varied technologies. Within the formal large-scale establishments like EPZ, apparel, modern technology is used as such; sufficient working requirements can be met. However, for the informal sector establishment, the technology used is simple and outdated and this enterprise may not fulfill the sufficient working requirements.

The implications are that EU-GSP and Cotonou origination rules have stringent exclusionary rules applicable to the Kenyan textile sector. For example, in the textile and textile articles, the LOME IV, agreement,

the list of working or processing requirements to be carried on non-originating material to confer origin, with respect to cotton, not carded or combed or bleached. Sufficient working requires the product to be manufactured from raw cotton and the value should not exceed 50% of the ex-work price of the product. Kenya is not sufficient in cotton productions; and the cost of production is very high compared to South Africa, due to power costs, infrastructure and taxes. This technically, excludes Kenyan textile fabrics from working conditions under EU-GSP rules.

Trade Deflection

Trade deflection refers to a situation where a country not in receipt of preferences essentially circumvents the MFN tariff of a preference donor by transshipping its exports through a country in receipt of preferences, adding little or no value in the recipient country. Unfortunately there is no simple and standard rule of origin which can be identified as performing the role of preventing trade deflection. A number of different rules are available each of which can have different implications for a producer of a given product. Three main methods are used to establish if sufficient processing or substantial transformation has been undertaken: (i) a change of tariff classification; (ii) a minimum amount of domestic value added; or (iii) a specific manufacturing process.

Some agreements, such as the NAFTA, apply a single method across all products, however, many trade agreements, most of those implemented by the EU and the US, use all 3 methods, which leads to complex sets of rules of origin. Typically, detailed rules specify which method applies to which product or product group. In the proposed Singapore-US FTA, for example, there are over 240 pages of product specific rules of origin. In certain agreements the rules of origin for a particular product will specify that two or more of the methods must be satisfied, for example, change of tariff heading and a certain proportion of domestic value-added. Clearly, satisfying multiple requirements to confer origin is more restrictive. In certain agreements the rules will stipulate alternative methods for particular products, satisfaction of any of which will confer origin. For example, change of tariff heading or the specified amount of domestic value-added. Such an approach is more liberal and gives greater flexibility to producers in obtaining origin.

No one method dominates others. Each has its advantages and disadvantages. However, it is clear that different rules of origin can lead to different determinations of origin. Thus, producers who are eligible for preferential access to different markets under different schemes with different rules of origin may find that their product qualifies under some schemes but not others.

There are several other typical features of the rules of origin of preferential trade schemes which can influence whether or not origin is conferred on a product and hence determine the impact of the scheme on trade flows.

Cumulation is an instrument allowing producers to import materials from a specific country or regional group of countries without undermining the origin of the product. The most basic form is bilateral cumulation. In this case originating inputs that is materials which have been produced in accordance with the relevant rules of origin, imported from the partner qualify as domestic content when used in a country's exports to that partner. Second, there can be diagonal cumulation on a regional basis whereby parts and materials from anywhere in the specified region which qualify as originating can be used in the manufacture of a final product which can then be exported with preferences to the partner country market. Finally, there can be full cumulation whereby any processing activities carried out in any participating country in a regional group can be counted as qualifying content regardless of whether the processing is sufficient to confer originating status to the materials themselves. Full cumulation provides for deeper integration by allowing for more fragmentation of production processes among the members of the regional group.

Tolerance or De Minimis rules allow a certain percentage of non-originating materials to be used without affecting the origin of the final product. It should be noted that this rule applies to the change of tariff heading and the specific manufacturing rules but does not affect the value added rules. The tolerance rule can act to make it easier for products with non-originating inputs to qualify for preferences. Suppose the EU signs a PTA with two (sets of) countries denoted X and Y, with identical rules of origin. A good originating in X would have tariff free access to the EU, as would a good originating in Y. However, a good produced in X, using intermediates from Y which do not meet the rules granting originating status for its exporters to the EU, would then be subject to tariffs on exports to the EU. Hence, a good directly exported from Y to A would be granted preferential access, but a good exported from X using Y's intermediates would not. A means of overcoming such an anomaly is to allow for the cumulation of the use of materials or processes across countries with parallel or overlapping preferential agreements i.e. to allow country X to include Y's intermediates in determining origin. Cumulation therefore encourages the use of materials and processing within the preferential area(s) while maintaining a common standard for treating third country non-preferential inputs. In principle there are three types of cumulation identified in the literature.

These are bilateral cumulation (between any pair of countries), diagonal cumulation (between three or more countries which have interlinked trading agreements), and total cumulation (again between three or more

countries, but involving more flexibility than with diagonal cumulation). Now assume that a system of diagonal cumulation is introduced. Between countries B and C following an FTA between these countries. There are then several possible effects which can be correspondingly identified. First, *trade creation* resulting in an increase in intermediate imports from the partner country, or from the rest of the world.

Secondly, a switching of intermediate imports from the EU to either cheaper partner countries or cheaper sources in the rest of the world. This is the reverse of trade diversion, and which we call *trade reorientation*. Thirdly there is the possibility of trade expansion (arising from the decrease in the costs of imports). Finally it is possible that there will be trade diversion with respect to the rest of the world. The first three of the above effects are welfare increasing, whereas the last may be welfare reducing. Diagonal cumulation between the EU, B, and C (which is precisely the pan-European system) would in principle thus allow for much freer trade between these countries, even in the presence of bilateral FTAs between each pairing.

The EU Extra Sourcing Origination Criteria

Kenya is not a self-sufficient country with regard to raw materials due to the value added industrial processing. However, under the extra ACP-EU agreement, the extra sourced raw materials are deemed non-originating products, to the extent that they originate from countries outside Kenya, and the ESA-EPA geographical configuration. However, most EU Cotonou rules; contain critical provisions like the draw back provisions, which like restore equal treatment between the production for domestic markets and for exportation. Poor countries in the presence of a cumulating system like the one in South Africa with EU, may affect sourcing of materials, shifting it from third countries to countries participating in the cumulating and thus contributing to trade diversion.

Furthermore, the Cotonou agreements do not accept outward processing in their definitions of rules of origin. This rule denies Kenya access to processing and value added plants in other countries with superior technology, without products losing their originating status. South Africa has special cumulating rules in the Cotonou regime. Materials originating from South Africa are considered as originating in the ACP state when incorporated into a product obtained there. However, materials originating from neighboring developing countries have separate cumulating rules in the Cotonou Agreement. The ACP has concluded an Agreement with the EU classifying the following as neighboring countries; Algeria, Egypt, Libya, Morocco and Tunisia. For Kenya, Egypt being a COMESA member and a key-trading partner may be a source of trade diversion as well as investment diversion. This is because; Kenya must make a specific request seeking to utilize the Egyptian inputs.

Notwithstanding, Egypt can use the cumulating rules to use materials from the rest of neighboring countries making its products more competitive in the EU market against the Kenyan products. As such investors would prefer their investments to Egypt and South Africa, in order to enjoy preferential treatment in the EU market, than to Kenya. In addition, higher percentages under Cotonou rules have been imposed for selected products and processes as stipulated in Annex to protocol.

Cotonou has also higher percentages of sufficient working or processing for selected products. For example items in chapter 51 and 58 of the HS relating to woven fabrics of wool, silk, yarn, man-made staple fibers as well as textile fabrics attract a 47.5% sufficient working or processing. This high percentage has the effect of discouraging investment in the development of a locally owned value added processing and confining Kenya to production of low-value commodity for bulk export to the EU. The overall effects have been trade diversion due to lack of cumulating rules, where trade will be diverted to the EU as a source of raw materials and finished products for the ESA-EPA states. This will increase trade dependence on the EU, reduce the already hard earned diversification of source of imports and export destination

3.0 METHODS

3.1 Introduction

This chapter aims at defining the research design and methodology used in the study. It contains a description of the study design, target population, sample design and size, data collection instruments and procedure.

3.2 Research design

A descriptive survey was undertaken. Descriptive designs result in a description of the data, whether in words, pictures, charts, or tables, and whether the data analysis shows statistical relationships or is merely descriptive. Surveys based on a carefully selected representative sample can produce results that are broad, credible and generalisable to the whole population. The researcher preferred to draw findings from the analysis of numerical data, in which case a survey became handy. In addition, it was possible for the researcher to administer the data collection tools to the respondents in their workstations, which was relatively easy and played a great role in increasing the response rate.

3.3 Population

The population of this study was all the 37 textile firms operating under the EPZ of Kenya in Nairobi (Annex II). All EPZ textile firms were surveyed and therefore there was no need for sampling technique, because the population/census method was used and the researcher visited all the textile firms to collect primary data.

3.4 Data collection

Type of data: The study involved collection of both primary and secondary data. Desk study was undertaken, in which a review of the relevant literature was carried out. Information pertaining to European Union rules of origin was critically reviewed. The sources of information included various websites, books, magazines, Journals and available reports from various sources. The desk study enabled this research to be grounded in the current literature relating to the study objectives. This development ensured that the research did not duplicate other studies, and instead made a significant contribution toward the subject of study. In addition, primary data was collected from all the respondents.

Data collection tools: Primary data was collected from the respondents with the aid of semi-structured questionnaires. The closed ended questions will be presented on a likert scale. The Likert scale, commonly used in business research (Sekaran, 1992) was used because it allows participants to respond with degrees of agreement or disagreement (Kerlinger, 1986). The questionnaire was structured in three main sections. Section I captured the profile of the respondent firms whereas sections II and III captured information on pertinent issues touching on the objectives of the study. The questionnaire was pre-tested on ten randomly selected respondents to enhance effectiveness and hence data validity.

Data collection procedures: Since all the respondent firms are conveniently located in Nairobi, the researcher administered the questionnaires by hand delivery. A letter of introduction, which stated the purpose of the study, was attached to each questionnaire. In addition, the researcher made telephone calls to the respective respondents to further explain the purpose of the study and set a time frame for the completion of the questionnaires. Once completed, the researcher personally collected the questionnaires. This gave her the opportunity to conduct clarify certain issues arising from the various responses. In addition, personal interviews were conducted with 10 of the respondents selected at random, aided by an interview schedule. In this case the researcher was able to obtain additional information to corroborate findings from the questionnaire.

3.5 Data analysis and presentation

Both quantitative and qualitative methods of analysis were used. In some instances some simple nonparametric tests were done. First level data quality checks were done at the data collection level while secondary level quality checks were done at the data entry level. The development of ranges, skip and fill rules accompanied by validation checks with all possible means of data cleaning were used to meet the assumptions of the analytical techniques to be employed. The quantitative data and qualitative information collected were coded and summarized in various forms. The data was analyzed by employing descriptive statistics such as percentages, frequencies and tables. Statistical Package for Social Sciences (SPSS) was used aid in analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. Computation of frequencies in tables, charts and bar graphs was used in data presentation.

4.0 FINDINGS AND DISCUSSION

4.1 Introduction

The study utilized a combination of both quantitative and qualitative techniques in the collection of data. The study covered all the garment manufacturing firms under both the EPZ programme and the MUB schemes, based in Nairobi (Fourteen firms under EPZ and twenty firms under MUB). Out of the thirty seven questionnaires sent out, thirty six of them were returned completed, 97 % response rate. The high response rate could be attributed to the personal efforts of the researcher, who made a follow up of every questionnaire sent out. The data was analyzed by employing descriptive statistics such as percentages, frequencies and tables. Statistical Package for Social Sciences (SPSS) was used to aid in analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. Computation of frequencies in tables, charts and bar graphs was used in data presentation. The information is presented and discussed as per the objectives and research questions of the study.

4.2 Profile of respondents

Gender distribution of respondents: The respondents were asked to indicate their gender. Many organizations are embracing gender equality in their employment policies. The Government of Kenya is an equal opportunity employer and is currently encouraging employers to adopt affirmative action. In this regard, the question was meant to solicit information that would lead to an indication of gender balance in the establishments of the

various textile firms. The responses indicate 95% of the respondents were male whereas 5% were female. The establishment is male dominated.

Period respondent worked in current firm: The respondents were asked to indicate the period of time they had worked in their current firms. The longer the period worked in one work place, the more conversant the respondents were expected to be with the various issues as pertains to the study. The responses are summarized in table 4.1 below.

Table 4.1: The period respondents worked in current firm.

Period worked in current firm	Frequency	Percentage
Less than 5 years	29	80
6 to 10 years	7	20
11 to 15 years	-	-
16 to 20 years	-	-
20 Years and above	-	-
Total	36	100

The findings indicate that at least 80% of the respondents have worked for five years and below within the EPZ companies and therefore were able to give a picture of the effects of EU rules on the firms operating at the EPZ. The other 20% have worked for less than 10 years, which represents a youthful workforce within the EPZ factories. The responses would thus be objective.

Ownership of the firm by nationality: The respondents were asked to indicate the country of ownership of the owners or key directors of the respondent firms. Table 4.2 below presents a summary of the responses.

Table 4.2: Ownership of the firms by nationality

Country of origin of owners/key directors	Frequency	Percentage
United States of America	-	-
Taiwan	4	11
Italy	-	-
Britain	-	-
Germany	-	-
Korea	-	-
Sri-Lanka	8	22
Kenya	8	22
India	16	45
Pakistan	-	-
South Africa	-	-
Total	36	100

The findings indicate that 45% of the EPZ firms operating in Kenya have their origins in India, an indication that the Indian investors are taking advantage of the AGOA opportunity and accessing the American markets from Kenya. The Kenyan firms within the EPZ constitute only 22%, which is relatively minimal, considering the fact AGOA opportunity is meant to help Africans, Kenya included to access American markets and reduce poverty. It also means that over 78% of the firms operating in EPZ zones offering Apparel to the American markets are foreign owned.

Estimated capital investment of the firms: The respondents were asked to indicate the estimated total capital investment in Kenya shillings. The responses are summarized in table 4.3 below.

Table 4.3: Estimated capital investment of the firms

Estimated capital investment	Frequency	Percentage
100 million and below	7	19
101 million and below 200millions	9	25
200millions and below 500 millions	14	39
500 millions and above	6	17
Total	36	100

The findings indicate that 17% of the firms operating within the EPZ have half billion Kenya Shillings investment each. This is quite colossal amount of investment and indicates that EPZ has indeed attracted massive direct investment into the country. It also shows, in case of withdrawals or relocation elsewhere by these investors due to various reasons, and then massive capital will be lost to other countries. It is therefore important that the Kenya government protects this massive investment by creating an investment friendly environment for investors for both local and foreign. Given that majority of the investors are foreign, then it is worthwhile for the government to encourage local investors within the EPZ zones in order to safeguard the investments and employment that it has created. However, it is also clear from the table that, majority of the investors (44%) within EPZ is medium scale with an investment capital of less than 200 million shillings.

Size of work force: The respondents were asked to indicate the total work force in their respective organizations. All the respondent firms indicated that they had a work force 100 and above. This means, the EPZ firms apply much of local labor for their production. This could be attributed to the fact that the Kenyan labor is not only readily available, but also relatively cheap and as such, is an alternative to heavy equipments that most firms cannot afford.

Preferential markets for firms' products: The respondents were asked to indicate the preferential markets they to which they sold their products. The findings indicate that the USA market, which is the backbone of the AGOA opportunity accounted for at least 95% of the textile products and apparel. Only 5% of the EPZ textile products companies are able to access the European market and this can be attributed to the rules associated with this market. The rules of origin are likely to inhibit access to the European markets, particularly for garments from Africa and developing countries. Access to EU market by the EPZ firms is relatively low. This could be attributed to Cotonou agreement upon through which goods from ESA-ACP countries access the European market. Such minimal figures could be indicative of an imbalanced trade and restrictive trade rules.

Textile products of the firms: Cotton products are the major textile products made by the EPZ firms constituting over 52 % of the products dealt in. However, other products made of special woven fabrics, man made filaments, wool and silk products each constitute less than 20% of the products. This means that, the textile products of apparel to the American market requires cotton as the main raw material. However, Kenyan farmers are unable to supply the EPZ firms with cotton due to little priority that has put in the cotton sector in the recent past. The findings further point out the fact that other raw materials used to make the apparel in Kenya have to be imported into the country and therefore, are likely to make Kenyan textile products less competitive in the international market. Table 4.4 below presents a summary of the responses.

Table 4.4: Type of firms' textile products

Type of products	Frequency	Percentage
Silk	2	6
Wool, fine coarse animal hair, yarn and woolen fabric	2	6
Cotton	19	52
Other vegetable textile fibers; paper yam and woolen fibers of papa yarn	-	-
Man-made filaments'	-	-
Wadding, felt and non-woolens, special yarns	-	-
Man made staple fibers	4	11
Wadding, felt and non-woven, special yarns twine, corsage, ropes and cables, articles thereof	-	-
Carpets and other textile floor coverings	-	-
Special woven fabrics, tufted fabrics, lace tapestries, trimmings, embroidery	5	14
Impregnated, coated, covered or laminated textile fabrics, textile articles of a kind suitable for use	-	-
Knitted or crocheted fabrics	-	-
Articles of apparel and clothing accessories knitted or crocheted.	4	11
Other made up textile articles, sets, worn clothing and worn textile articles, rags	-	-
Total	36	100

Sources of raw materials: The findings of the study indicate that Hong Kong is the largest supplier of raw materials to EPZ firms operating in Kenya, accounting for at least 18%. Others include china, Indonesia, Taiwan and Kuwait (16%), Far East, India (16%) and Egypt at 14%. However, except for Egypt , the rest of the countries are in Asia and they therefore do not enjoy favorable terms with EU and the American markets, this implies therefore materials imported from these countries make it hard for Kenyan textile firms to access the EU markets on the qualification of the rules of origin. Egypt , is member of the COMESA, and can afford to serve the Kenyan firms with these raw materials However, due to strict origination criteria, from the European ,markets , materials sourced from Egypt cannot be used by the Kenyan firms to qualify for origination due to lack of cumulation rules between the EU and the COMESA region.

This works to the advantage of South Africa, which is not only a major supplier of textile raw materials to the EPZ firms in Kenya , but enjoys favorable three year cumulation rules with European union. The effects would be for the Kenyan firms to relocate to South Africa for production and export to the EU market as well as the American Market (diversionary investment). Other minor supplier of raw materials include, Comoros Island accounting for only 6%. The responses are summarized in figure 4.1 below.

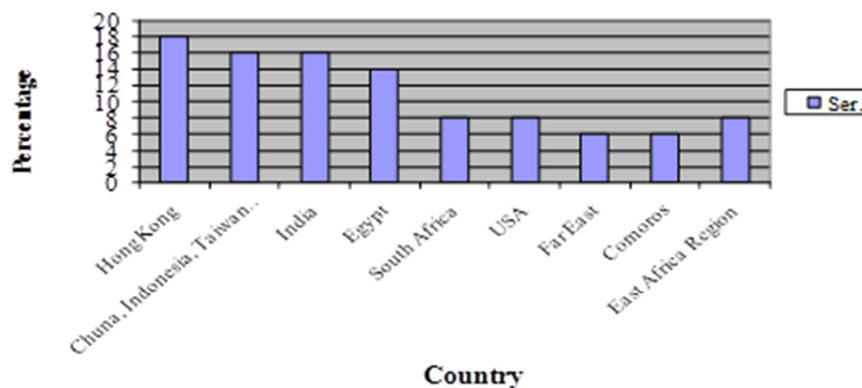


Figure 4.1: Sources of raw materials

Type of raw materials sourced: The type of raw materials sourced locally by the textile firms operating within the EPZ zones are shown in Graph 4.2 below. Out of the 36 firms studied only 5 (14%) source cotton from the Kenyan suppliers, another 6 (17%) source silk from the Kenyan farmers. Interestingly, a huge number 25 (69%) import all their raw materials for their firms. This implies that local supply of raw materials is not enough for the EPZ firms and therefore most of the finished products are technically disqualified from the originating criteria in the EU markets due to the Domestic content rule. This is worsened by the fact that there are no sufficient working processing conditions that would favor textile products into entering the European market. Even if such conditions existed for origination between EU and the Kenyan firms, the cost structure in the country could be a big inhibitor due to labor intensive factor. Figure 4.2, also shows that the EPZ firms are merely using the AGOA opportunity to enrich other countries. However, Kenya has not benefited much from golden opportunity due to the government insensitive nature to revive cotton production. The other factors are poor farming methods applied to cotton and very high electricity cost that would make irrigation more expensive. The types of raw materials sourced from Kenya are presented in figure 4.2 below.

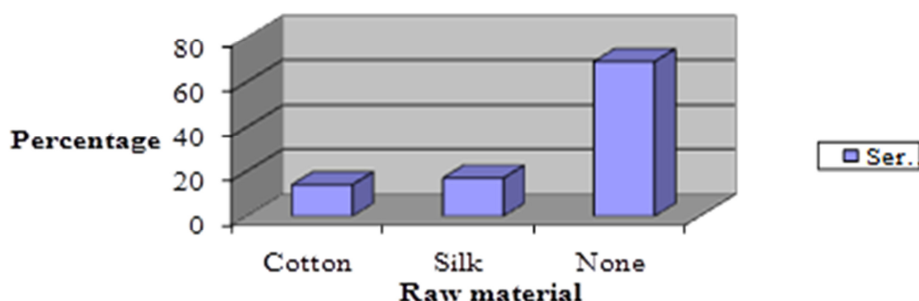


Figure 4.2: Types of raw materials sourced from Kenya

Type of raw materials sourced from outside Kenya: The Summary of responses is presented in table 4.5 below. At least 64% textile firms within EPZ source cotton outside the country, 17% source for silk, 8% source for Nylon while 11% source for fibers. This is an indication that Kenya supplies very little to its industries operating within and is therefore yet to take full advantage the EPZ zones. This corroborates the findings in the literature review, which Kenya is not sufficiently endowed with raw materials like cotton, fabric or silk that it requires to take full opportunity of the AGOA program. In addition, the country lacks sophisticated equipment for making synthetic fiber that could be used to make textile products. The type of raw materials sourced from outside Kenya are presented in table 4.5 below.

Table 4.5: Type of raw materials sourced outside Kenya

Raw material	Frequency	Percentage
Nylon	3	8
Fibers	4	11
Silk	6	17
Cotton	23	64
Total	36	100

Sufficiency of working conditions: Out of the 36 firms that took part in the study, at least 60% had not achieved

sufficient working conditions that would enable them to access the EU markets. Majority of them produce for the American market under the AGOA initiative. In addition, the firms that need to meet sufficient working conditions in order to access markets like China or European union, the percentage is relatively high in relation to availability of raw materials within Kenya that would make criteria easily achievable. Figure 4.3 below shows that at least 40% of the EPZ firms attempt to satisfy certain conditions for origination and therefore access markets like China.

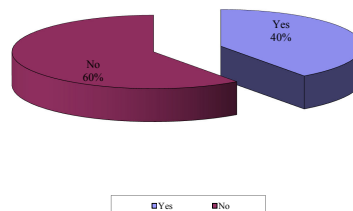


Figure 4.3: Sufficiency of working conditions

Countries/Regions that require sufficient working conditions: Further, the respondents were asked to indicate whether they required sufficient working conditions for origination. Graph 4.3 below shows that almost 60% of the companies studied cited European Union as requiring extra processing conditions for originating. The USA and China had at least 10% of the companies stating that they try to access these markets by meeting the sufficient working conditions. However, USA under the AGOA opportunity had allowed sourcing of raw materials for the time being from anywhere and America, making products access their market easily. This implies of those companies operating under the EPZ can satisfy American market beyond the conditions given under the AGOA opportunity. Another 16% of the firms under study try to satisfy origination criteria for external processing for other markets in order to have access. Countries or regions that require sufficient working conditions are summarized and presented in figure 4.4 below.

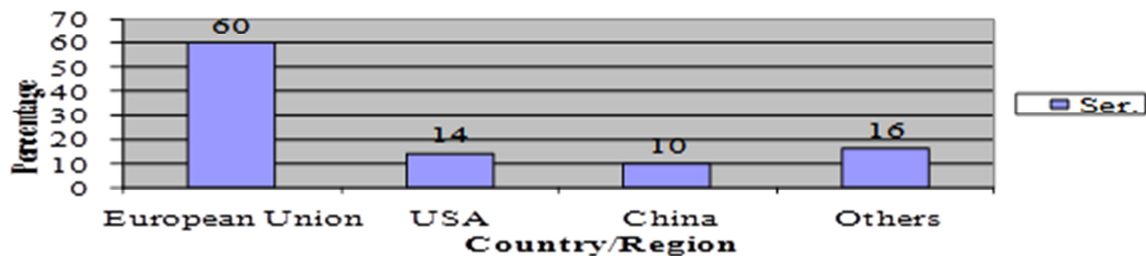


Figure 4.4: Country or region requiring sufficient working conditions

Percentage of sufficient working conditions: Companies surveyed show that over 40% of the markets they attempt to access through sufficient working conditions have high value added rate of 35% and 40%. The firms that required highest rates of 50% and 40% constituted less than 10% of the companies studied. The same case applies to those having the lowest external working conditions rates for origination. This is as shown in figure 4.5 below.

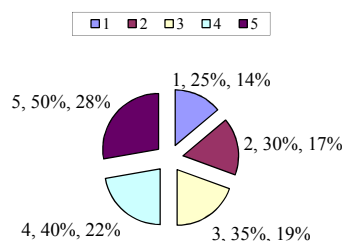


Figure 4.5: Percentage of sufficient working conditions

Qualification for originating criteria under the sufficient working conditions call for efficient production methods. This requires the use of efficient technology and modern machines that saves on time and

reduces the rework units. However, Kenyan industries, particularly the EPZ textile firms seem to rely heavily on the use of labor, which is not quite efficient and therefore the cost content of the final product is usually high and less competitive. It therefore follows that, majority of the EPZ firms trying to satisfy the sufficient working conditions and the domestic content rule for origination in order to access the EU market may be at a disadvantage.

Production method: Figure 4.6 below presents a summary of the responses. Out of the 36 firms, 94% of them use labor intensive methods of textile production.

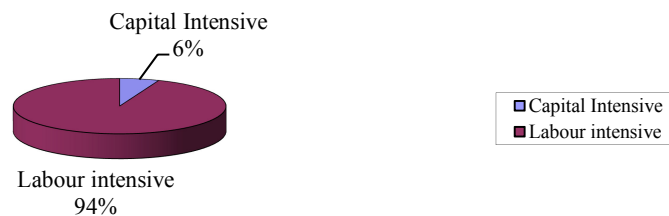


Figure 4.6: Production methods

Ratio of capital to labor in the production process: EPZ firms in Kenya are labor intensive with majority (38%) having a capital to labor ratio of 1.5:1. Another 20% of the companies studied use more labor than capital having a ratio of 2:1. The others were as follows: - 16% had a ratio of 1:1.5, 12% had a ratio of 1:1 while 14% had a ratio of 1:2. The ramifications of capital to labor ratio are critical for the final cost structure of the products for sale. The effects being on the fact that high cost structure relative to competitors makes the products less competitive, while at the same time exceeding the domestic content percentage that would facilitate qualifications of such products for origination. Kenyan textiles therefore may fail to access certain markets due their high cost content and being less competitive. This information is summarized and presented in figure 4.7 below.

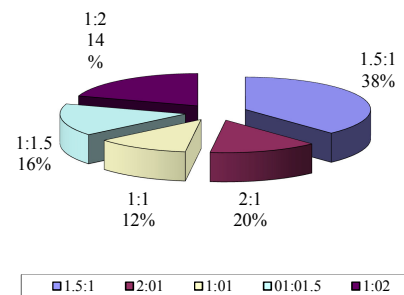


Figure 4.7: Ratio of capital to labor in production

Non-Preferential markets accessed: Table 4.6 below presents the non – preferential markets that the EPZ firms in Kenya access and therefore dispose excess textile products. 6% of the companies studied have access to the SADC market, 8% of the companies access the European Union market and huge 36% of the firms do not access any new markets other than the USA under the AGOA. Access to USA under the AGOA opportunity is a non reciprocal preferential market. However, 50% of the firms operating under the EPZ in Nairobi do access the USA market. The implications of these findings are that besides the AGOA opportunity under which the EPZ zones operate, only 14% of the firms is able to access either the European market or the SADC market. Such conditions relate to the origination rules and therefore it is clear that the origination rules have reduced access to the European markets, (only 8% of the firms access the EU market). 36% of those firms are unable to access any other market. This reflects the negative effects of EU rules of origin on market access by the EPZ firms.

Table 4.6: Non-preferential markets accessed

Non-preferential markets	Frequency	Percentage
SADC	2	6
European Union	3	8
United States	18	50
None	13	36
Total	36	

4.3 Effects of European Union Rules of Origin on the Textile firms in Kenya

The industry players within the EPZ Nairobi were asked to express their opinions on the extent to which EU rules of origin may have caused trade diversion, trade deflections, diversionary investments, or has discouraged extra sourcing of raw materials from other countries or regions which do not qualify; or has reduced access to European market by the textile firms from developing countries and Kenya in particular. The respondents were asked to show the instances in which EU rules have contributed to each of the five variables above. The instances was given as; rarely (1); often (2), and severally (3). The summary of responses is presented in table 4.7 below. Indications are that the cost per unit in the EU market is quite competitive with a mean score of 1.53, which is in the middle of the scale (1 = least competitive, 2 = quite competitive, 3 = very competitive). This implies that majority of the firms operating within the EPZ have relatively high competitive costs per unit of production and they are skewed towards being quite competitive.

The instances of trade deflection caused by the European rules are seen to be quite often with a mean score of 1.58. The same can be said about diversionary investment (1.50) reduced terms of trade (1.69) and discouraging extra sourcing of raw materials (1.53). The implications are that majority of the firms studied at the EPZ are experiencing serious effects of the EU rules of origin. Such effects are quite often being witnessed.

However, the situation is yet to alarming as there are no several incidences of such effects. Interestingly, reduced access to the EU market is very rare, (mean = 1.31.). Perhaps because as earlier noted, the rules of origin clearly define entry conditions into this market and majority of the firms are unable fulfill them. In essence, those that are able to access continue to do so and thus the issue of reduced access does not arise. However, it is true to say that generally, access to the EU market is severely restricted due to the restrictive nature of the EU rules of origin.

Table 4.7: Effects of European Union Rules of Origin on textile firms in EPZ in Kenya

Effects of EU Rules of Origin	Mean Score	Standard deviation	Variance	Skew ness	
				Statistic	Standard
Extent to which cost per unit is competitive in the EU market	1.53	3.06	0.371	0.693	0.393
Instances of trade deflections due to EU Rules of Origin in the last three years	1.58	3.16	0.364	0.487	0.393
Instances of diversionary investment caused by EU Rules of Origin	1.50	3.00	0.257	0.000	0.393
Instances of reduced terms of trade due to EU rules of origin	1.69	3.38	0.390	0.315	0.393
Instances of reduced market access to European Union	1.31	2.62	0.218	0.881	0.393
Instances of discouraging extra sourcing of cheap raw materials	1.53	3.06	0.599	1.076	0.393
N = 36					

4.4 Effects of Kenyan Infrastructure on the competitiveness of the Textile Industry

Table 4.8 below presents the other factors that may affect the EPZ firms in their quest to access the European market. The local operating environment may have an impact on the way the firms do business in Kenya. The EU rules for instance may influence the operating and production because of the need to meet the market conditions. The respondents were asked to state the extent to which, in their opinion this affect their operations. They were supposed to tick along the like scale where, 1= Not at all; 2 = Somehow; 3 = Much; and 4 = Very much.

The EU rules of origin with a mean statistics of 2.28, shows that there are much more effects on the operations of the local companies operating under the EPZ, perhaps due to the need to satisfy the EU as to origin conditions.

Other factors with above average effects on the operations of the EPZ firms include ;tax regime (2.03), labor costs of production(2.31), the level of information technology (2.11), trade regulations (2.39) ,comparative advantages for the country, industrial and investment hub(2.22) and finally the international markets , other than Europe. The effects of the above factors on company’s operations are more severe with a skew towards ‘most; effects. Such factors pointed out by the respondents known to have most effects on the company operations included, raw materials and the textile production in the country (3.03). Under the EPZA Act 80% of the firms production must be exported with the balance 20% being sold locally after payment of relevant taxes to the local customs authority

Competitiveness of the textile products produced in Kenya, which mainly relates to the cost structure was rated to have the most effects (2.81). The cost of production (3.19) still remains the most powerful influence

on local firms operating in Kenya. This is because as cited cost structure in any industry influence the competitiveness of the products involved. The cost of production in the Kenyan economy is very high due high taxes, the cost of electricity, and fuel). The bad state of infrastructure also adds up to the transport and communications cost.

From the table below, its clear that of all the variables considered the condition of the infrastructure as the most critical among the respondents with a mean score of 3.25. This means that majority of the respondents feel that infrastructure in the country have great effects on the competitiveness of the textile products and end up influencing the qualifications for origination criteria.

Table 4.8: Effects of Kenyan Infrastructure on the competitiveness of the Textile Industry

Factors affecting operations of Textile firms	Mean score	Standard deviation
EU rules of origin	2.28	4.56
Cost of operations/production in the country	3.03	6.06
Labor costs	2.31	4.62
Taxation regime	2.03	4.06
Information & Communication Technology	2.11	4.22
State of infrastructure (Transport, water, power etc)	3.25	6.50
Trade regulations	2.39	4.78
Textile production in other countries	2.36	4.72
The textile market globally	2.74	5.48
Competitiveness of the Kenyan textile products in the international markets	2.81	5.62
Comparative advantages of Kenya as an investment destination.	2.22	4.44
International market: Other than Europe.	2.36	4.72
N=36		

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study focused on a specific set of issues – the possible impact of rules of origin and of the cumulation of those rules on patterns of trade. Both economic theory, and the descriptive statistics discussed in the paper have shown that there is a strong case for suggesting that rules of origin and their cumulation effects can materially impact upon patterns of trade. This was also strongly borne out by the formal empirical analysis. Despite the widespread belief by policy makers and industries themselves concerning the impact of rules of origin on trade, to our knowledge this is the first serious attempt to empirically evaluate the potential extent to which rules of origin may indeed be restrictive.

There are several key conclusions emerging from this paper. First, that rules of origin do appear to restrict trade, and that in aggregate the cumulation of such rules could increase trade in the order of 50%.

Secondly, there is evidence to suggest that the lack of cumulation is more important with regard to intermediate trade than manufacturing trade.

Thirdly, the results suggest that the higher the tariffs the smaller the impact of cumulation, though the extent of this may depend on the possibilities for drawback.

5.2 Recommendations

Recommendations for policy and practice

Based on findings of the study, it is expected that the stakeholders, who include the firms operating under EPZ in Kenya and the Ministry of Trade and Industry will gain a better understanding of the effects of European Union Rules of Origin on the Textile firms in the EPZs. In view of the foregoing, the researcher recommends as follows: That in order to increase investment into the country, the tax charged like vat and customs is reduced drastically for the EPZ firms to make them more competitive in the international markets.

That access to the EU market for Kenyan textile products can be enhanced by negotiation for regional cumulation rules that would allow the country firms to access superior technology in South Africa and Egypt, and still qualify for origination under the EU rules.

The percentage for Domestic content rule under the EU rules should be lowered to a level that accommodates developing countries' technology and labor intensive production which hikes the costs of production.

The imminent agreement between Kenya and EU to sign a free market should be rejected now until Kenyan industries are able to freely access the EU markets. Otherwise the Kenyan industry base will collapse due to stiff competition coming from developed EU firms.

The government should improve its infrastructure as its first priority in order to reduce the cost

structure currently the Kenya firms produce in, which is a consequence of bad or poor infrastructure. Cost of power and transport constitute a big proportion of the cost.

There is need to renegotiate the EU rules on textile particularly in the area of sourcing raw materials from outside the country. Kenya does not benefit much from the EPZ and the AGOA opportunity due to lack of cotton, fabrics, man-made fibre etc which are key ingredients for textile production. Kenya's farming and ginning of cotton has a long way to go, and the production of silk is still very low.

Recommended areas of further research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: Findings of the study should be replicated to other sectors of the economy to determine consistency; Whereas the current study focused on responses from the management of the Textile Firms operating under EPZs, future studies should focus on responses from policy makers in the Ministry of Trade and Industry; and Future studies should seek to establish the strategic interventions that could be employed by stakeholders in the industry to either minimize the effects of EU rules of origin, or reverse the trends ministries.

REFERENCES

- ACP-EU Partnership Agreement (June 2003) signed in Cotonou
- Alonso-Gamo, P., Fennell, S. & Sakr, K (1997). Adjusting To New Realities; MENA, The Uruguay
- Bergstrand, J. (1985). *The gravity equation in international Trade: Some microeconomic foundations and empirical evidence, the review of economics and statistics*, 20, pp.474-81.
- Brenton, P. & Manchin, M. (2002). Making EU Trade Agreements Work: The Role of Rules of Commission of the European Communities Brussels 6, March, 2005, - The rules of origin in preferential trade arrangements orientations for the future.
- Cotonou Agreement, (2000). Accessed at URL: www.tralac.org
- Customs Co-operations council (2003). Rules of origin which are difficult to apply and control.
- Deardorff, A.V. (1997). *Determinants of bilateral trade: Does gravity work in a classical World? In the regionalization of the World economy*, Jeffrey Frankel Ed., University Of Chicago Press.
- Deardorff, A.V. (2001), international provision of trade services, Trade, and Fragmentation, *Review of International Economics* 9, Pp.233-248.
- Driessen, B. & Graafsma, F. (1999). *The EC's wonderland : An overview of the Pan- European*.
- Duttgupta, R. & Panagariya, A. (2002). Free Trade Areas and Rules of Origin: Economics and East African community customs Union (Rules of origin) *Economic Review*, Vol.43, N°2, May, Pp.393-407.
- EC (2003). Green Paper on the Future of Rules of Origin in Preferential Trade Arrangements. COM(2003)787 final. Brussels.
- EC (2004). Green Paper, The Future of Rules of Origin in Preferential Trade Arrangements; A summary report of the results of the consultation process. Brussels.
- EC (2005a). The rules of origin preferential trade arrangements: Orientations for the future.
- EC (2005b). Justification of the choice of a value added method for the determination of the origin of processed products. Working Paper TAXUD/1121/05 Rev.1 – EN. Brussels
- Evans, D. (2000). Options For Regional Integration In Southern Africa, *South African Journal of Economic Studies*.
- Falvey, R. & Reed, G. (1998). Economic Effects Of Rules Of Origin, *Welwirtschaftliches Archive*.
- Falvey, R. & Reed, G. (2002). Rules Of Origin As Commercial Policy Instruments, *International*
- Frankel, J. (1997). Regional Trading Blocs in the World Economic System, Institute for International Economics, Washington DC.
- Galal, A. & Hoekman, B. (Ed.) (1997). *Regional Partners In Global Markets : Limits*
- Gasiorek, M. (2002). Study On The Economic Impact Of Extending The Pan-European System Of Cumulation Of Origin To The Mediterranean Partners' Part Of The Barcelona Process, Report to trade, European Commission.
- Harmonised Origin Protocols, *Journal of World Trade*, 33 (4), P.19-45.
- Herin, J. (1986). Rules of Origin and Differences between Tariff Levels in EFTA and the EC, EFTA Occasional Paper No.13.
- Hoekman, B. (1993), Rules of Origin for Goods and Services, *Journal of World Trade*, Vol.27, No.4, Pp.81-99.
- Hummels, D., Ishii, J. & Yi, K. (2001). The Nature and Growth Of Vertical Specialization In World Trade, *Journal of International Economics*, Vol.54, Pp.75-96.
- Inama, S. & Jachia, L. (2000), Assessing Market Access Preferences For Mediterranean Countries On The EU Market For Industrial Goods, Working Paper N° 2013, ERF.20
- Jones, R. W. & Sugata M. (2001). The Role of International Fragmentation In The Development

- Joseph A. L. III (1995). An evaluation of the uses and importance's of rules of origin and the effectiveness of the Uruguay Round's Agreement on ROO in Harmonizing and regulating them – Harvard Law School.
- Ju, J. & Krishna, K. (1996). Market Access and Welfare Effects of Free Trade Areas without Rules Of origin, NBER Working Paper N° 5480.
- Ju, J. & Krishna, K. (1998). Firm Behavior and Market Access in A Free Trade Area with Rules Of origin, NBER Working Paper N° 6857.
- Krishna, . & Itoh, M. (1988). Content Protection and Oligopolistic Interactions, Review Of ROO.
- Krishna, K. & Krueger, A. (1995). Implementing free trade areas : Rules Of Origin And Hidden
- Krueger, A. (1993). Free Trade Agreements as Protectionist Devices: Rules of Origin, NBER Working Paper N° 4352.
- Lanasa, J. (1995). An Evaluation of the Uses and Importance of Rules of Origin, And The Effectiveness Of The Uruguay Round's Agreement On Rules Of Origin In Harmonizing And Regulating Them, Working Paper, Harvard Law School.
- Lloyd, P.J. (1993). A Tariff Substitute for Rules of Origin in Free Trade Areas, the *World Economy*, Vo.16, No.6, Pp.699-712.
- Mathis, J.H. (2002). Regional Trade Agreements In The GATT/WTO, luwer/TM.C.Asser
- Mattoo, A., Roy, D., & Subramanian. A. (2002) The Africa Growth And Opportunity Act And Its Rules of Origin: Generosity Undermined? World Bank Policy Research Working Paper 2908.
- Matyàs, L. (1997). Proper Econometric Specification of the Gravity Model, the *World Economy*, Vol.20. Origin, CEPS Working Document No.183.
- Ahago, P. (2006). A presentation Paper on the rules of origin, to the Kenya Revenue Authority.
- Panagariya, A. & Krishna, K. (2002). On necessarily welfare-enhancing free trade areas, *Journal Of international Economics*, Vol.57 Pp. 353-367.
- Otieno, O. (2000). *An analytical study on Rules of origin*
Protection, NBER Working Paper N° 4983. Protocol Agreement 6th July2001; concerning the definition of the concept of the Originating Products: and methods of Administrative cooperation; Review of World Economics, Vol.134, No.2, Pp.209-229.
- Round, And the EU-Mediterranean Initiative, IMF Working Paper WP/97/5. Rules of origin Harmonization work programme, 18th April, 2006.
- Sapir A. (1998). The political economy of EC regionalism, *European Economic Review*, Vol. 42, Pp.717-732. Summer, Pp. 75-88.
- Technical committee on ROO, the 20th session, Dec, 2001, Brussels; A comparative study on systems of certification and verification as well documentation for customs clearance respect to Non-preferential ROO.
- Vermulst, E. (1992) Rules of Origin as Commercial Policy Instruments – Revisited, *Journal of World trade*, Vol.26, No.6, Pp.61-102.
- Vermulst, E., Waer, P. & Bourgeois, J. (1994), *Rules of Origin in International Trade: A Comparative study*, the University Of Michigan Press.

APPENDIX I: LIST OF POPULATION OF STUDY
Listing of Garment Manufacturing Companies under EPZ Program

No.	Company
1	Alltex EPZ Ltd. Pants Athi River
2	Apex Apparels EPZ Ltd. Pants, Shorts Nairobi
3	Ashton Apparel EPZ Ltd- Ladies & Gents Pants Nairobi
4	Baraka Apparels EPZ Ltd. Jeans, Pants, Shorts Nairobi
5	Global Apparels Kenya EPZ Ltd Pants, Shorts Athi River
6	JAR Kenya EPZ Ltd. Jeans, Shorts Nairobi
7	Mirage Fashion Wear EPZ Ltd. Shirts, Pants Athi River
8	MRC Nairobi EPZ Ltd. Pants Athi River
9	Protex EPZ Ltd. Tops, Jackets, tracksuits, shorts Athi River
10	Rising Sun Pants, shorts Athi River
11	Rolex Garments EPZ Ltd. Pants, Jeans, Shirts Athi River
12	Sahara Stitch EPZ Ltd. Pants, Jeans Nairobi
13	United Aryan EPZ Ltd. Pants, Shorts Nairobi
14	Upan Wasana EPZ Ltd. Pant, Blouse, dresses, shirts, Jackets, Pullover Nairobi
15	Apparels Trading Co Ltd. Manufacture of apparel Nairobi
16	Binti Apparels Limited-Market & export of woven & none woven Garments Nairobi
17	Blue Plus Ltd Manufacture and export of garments Nairobi
18	Crown Fashions Ltd Manufacture of garments Nairobi
19	Eagle Apparel Export Ltd Manufacture of apparel Nairobi
20	Equator Apparels Co. Ltd Manufacture of garments for export Nairobi
21	Excel Clothing Manufacture of apparel Nairobi
22	Falcon Apparel Exporters Ltd Manufacture of garments Nairobi
23	Freba International Mall Ltd Manufacture of textiles Nairobi
24	Garment label Manufacturers Ltd; Manufacturing of Garment labels Nairobi
25	Leena Apparel Ltd manufacturing of garments Nairobi
26	Manchester Apparels Ltd Manufacturers of apparel Nairobi
27	Maridadi Apparels Ltd Manufacture of apparel Nairobi
28	Mash Apparels Kenya Ltd Manufacture of apparel Nairobi
29	Res Apparels Ltd Manufacture of garments for export Nairobi
30	Riziki Manufacturers Ltd Garment exporters Nairobi
31	Sankam Textiles Ltd Manufacture garments Nairobi
32	Sethi Fabric ltd Manufacture of garments for export Nairobi
33	Storm Apparel Manufacturers Ltd Manufactures apparel Nairobi
34	Tana Apparels Ltd Manufacture garments Nairobi
35	Teleworld Industries Ltd Manufacture shirts for export Nairobi
36	Triaco Fine Textile Products Making garments Nairobi
37	Zawadi Apparels Ltd Manufacture and export of garments Nairobi

Source: EPZA (2005)

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:

<http://www.iiste.org>

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

Academic conference: <http://www.iiste.org/conference/upcoming-conferences-call-for-paper/>

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

