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Does regionalism increase industrial policy space? An analytical framework applied to the East African textiles and apparel sector

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ABSTRACT

We introduce a multidimensional and multilevel framework for industrial policy space as the set of legally permitted, economically viable and politico-institutionally feasible policy options for industrial development, given constraints at the national, regional and global levels. This is applied to the East African Community (EAC) textiles and apparel (T&A) sector, using data from policy documents and semi-structured interviews. The EAC customs union nominally transfers trade policy sovereignty to the regional level, but we present evidence showing how the duty remission scheme allows governments to provide targeted trade policy rents to domestic T&A firms, maintaining national legal policy space. This comes at a cost, because firms benefiting from national duty remission rents may not sell their goods duty free in other EAC countries, so the expanded economic policy space offered by regional integration is curtailed. In the political-institutional sphere, the EAC allowed a new policy option to emerge at the regional level – import substitution of used clothes – but global-level policy space constraints prevented implementation when US authorities threatened to remove trade preferences underpinning thousands of jobs. Regional integration policies should take into account tensions between different dimensions and levels of industrial policy space to maximise prospects for sustainable development.

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Introduction

This paper examines the impact of regional integration on industrial policy space for development, introducing a new analytical framework and applying it to the case of the East African Community (EAC) textiles and apparel (T&A) sector. We identify shortcomings in existing approaches to policy space in the literature, particularly the neglect of geopolitics, domestic political economy, public sector organisational capabilities, and domestic and

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global economic structures. We propose a definition of industrial policy space as *the set of legally permitted, economically viable and politico-institutionally feasible policy options that can promote industrialisation of an economy*, ie the development of increasing returns activities, particularly in manufacturing. Our analytical framework reveals new industrial policy space dilemmas reflecting multiple policy dimensions and geographies.

The framework is then applied to the EAC T&A sector by analysing each dimension of industrial policy space in turn, before focussing on a few key policy areas, particularly linked to trade. Industrial policy includes wide-ranging instruments from subsidies to standards (Chang and Andreoni 2020) but is closely linked to trade policy in low- and lower middle-income countries (LLMICs) where the formal sector of the economy is relatively small and fiscal revenues are disproportionately from trade. This is demonstrated in the EAC by the long-standing importance of export processing zones (EPZs), where fiscal incentives are conditional on exporting (Andreoni, Boys, and Therkildsen 2022). The introduction of the EAC customs union and Common External Tariff (CET) made trade policy all the more central to industrial policy in the region.

Documenting the extent of use of the duty remission (DR) scheme and stays of application (SOAs) in the T&A sector, we argue that the EAC CET's sometimes maligned deviation from a textbook customs union (eg Mshomba 2017) actually provides important national flexibility to pursue strategic industrial policy. This is done through charting the use of DR and SOAs in the T&A sector over time by partner states, as set out in the EAC Gazettes which represent concretely the political economy dynamics of regional industrial policymaking. In more detail we examine an SOA granted to Kenya in 2017 on EPZ export requirements in the garment sector, which was followed by a breakdown of free trade within the customs union.

Regional policy towards used clothes illustrates industrial policy space dilemmas at the intersection of political-institutional and economic dimensions, and between regional and global levels. At the global level, the USA's African Growth and Opportunity Act (AGOA) provides for expanded economic policy space, but its rules inhibit EAC countries from pursuing backward linkage creation in line with their comparative advantage in cotton-based T&A products, limiting the actual expansion of industrial policy space at the regional level.

In contrast to the existing literature on South–South regional cooperation initiatives, which suggests their impact on policy space is negligible or positive (Thrasher and Gallagher 2010; Chang, Hauge, and Irfan 2016), we argue that the impact of the EAC on members' policy space in the T&A sector has been significant, and both positive and negative across different dimensions, showing the need for detailed contextual analysis. In the final section we argue that in order to design effective industrial strategies it is necessary to achieve an understanding of the key features of the legal, political-institutional and economic dimensions of policy space at the national, regional and global levels for the specific country and sector in question. This helps identify trade-offs, since positive developments in one area can be offset by unfavourable conditions in another, as seen in the case of used clothes. Analysis of trade agreements using the proposed framework encourages a focus not only on expanded market access but also on any changes in legal and political-institutional policy space. In the conclusion we show how applying such an approach to regional integration initiatives between LLMICs, such as the African Continental Free Trade Area (AfCFTA), provides insights into policy efforts to promote industrialisation through the development of regional value chains (RVCs).

Literature review: industrial policy space for development

Economic convergence requires lower income latecomers to 'catch up' by rapidly increasing the technological capabilities of their productive organisations. Historically, industrial policy measures have developed 'infant industries', from fifteenth-century England to the East Asian tigers and China, while colonisers have impeded industrialisation by banning higher value activities like manufacturing and imposing 'unequal treaties' (Chang 2002). Policymakers in the Global South still frequently call for *policy space* to allow the design and implementation of national development strategies (G77 2017).

The United Nations Conference on Trade and Development aims to address the policy space challenges of developing countries in the international trading system (UNCTAD 2004). Since the 1980s, the liberalisation of capital movements and exchange rates has narrowed 'the range of feasible policies open to developing countries to promote their own development' (UNCTAD 1982, 5). The rules of the World Trade Organization (WTO) significantly reduced policy space compared to the prior General Agreement on Tariffs and Trade regime (Wade 2003). With the collapse of multilateral trade negotiations in the Doha round, regional and bilateral free trade agreements (FTAs) have become the focus of policy space discussions, especially since so-called 'trade agreements' increasingly go beyond trade to investment and the protection of foreign investors' property rights (UNCTAD 2014).

Despite its prominence in policy debates, the meaning of 'policy space' is rarely defined and remains under-theorised. UNCTAD defines policy space as the combination of *de jure* policy sovereignty ('the formal authority of national policymakers over policy instruments') and *de facto* control ('the ability of national policy-makers to effectively influence specific targets through the skilful use of policy instruments') (Mayer 2009, 376; UNCTAD 2014). While this definition points to the complexity of policy space, the following issues remain underdeveloped in the literature.

First, the political dimension to policy space at the international level is usually neglected. Amsden and Hikino (2000) and Shadlen (2005) observe the informal geopolitical pressure placed on developing countries to 'open up' their markets to foreign capital and goods. This can manifest in coercion to sign agreements that reduce policy space, or threats to remove preferential treatment or other advantages (eg development aid or military support) if certain policies are pursued (Wolff 2021, Whitfield and Fraser 2010). Such geopolitical pressure is also exercised by transnational corporations (TNCs) whose economic interests and global influence put further pressure on governments in LLMICs (Andreoni, Chang, and Estevez 2019).

Second, domestic political economy factors affecting the set of policy options that can be feasibly implemented are rarely explored. Dagher (2019) points to the potential for internal forces to oppose government policies and therefore close down policy space. Khan's (2018) political settlements approach provides a framework for analysing how the distribution of power across organisations affects which policy instruments can be effectively enforced. Recent research on the political dynamics of growth episodes has added the ideas of a 'deals space' and 'rent space' which describe the nature of interactions and the structure of economic opportunities, respectively (Pritchett, Sen, and Werker 2018).

Third, analysis of *de jure* policy space largely takes for granted that developing countries have the will and the public sector governance capabilities to follow procedural requirements of permissive clauses in trade agreements, despite these requirements being imposed to limit *de facto* policy space (Hudec 1987). For instance, WTO provisions allow for the imposition of safeguard measures, anti-dumping duties and quantitative restrictions, but procedural requirements prevent utilisation where state capacities are weak or have been eroded (Amsden and Hikino 2000; Chang, Hauge, and Irfan 2016). The ideology of policymakers also affects what policies are considered, with South Korean officials in the 1960s being disposed towards stronger state intervention (Chang 1996).

Fourth, another neglected area is how feasible policy options are affected by economic structures at the domestic and international level. The productive capabilities of firms and their interlinkages determine conditions for generating increasing returns and therefore industrial policy space (Andreoni 2019). Furthermore, market conditions such as the globalisation of production in TNC-governed global value chains (GVCs) and financialisation have important implications for industrial development strategies in LLMICs (Chang and Andreoni 2020).

Fifth, policymakers in the Global South must develop industrial strategies in a complex multi-scalar context – that is, a context entailing different policy levels associated with national, regional and global policies (Behuria 2019). This requires navigating policy space at the national, regional and global level simultaneously, and while some research acknowledges tensions between the national and the international level, a more nuanced understanding is necessary. For example, non-tariff barriers (NTBs) consisting of *de jure* and *de facto* elements are increasingly used by national authorities to control regional and international trade as tariffs are restricted by trade agreements (Ederington and Ruta 2016).

An integrated multidimensional-multilevel industrial policy space framework

To address the shortcomings identified, we advance a new integrated industrial policy space framework in which industrial policy space is defined as the set of legally permitted, economically viable and politico-institutionally feasible policy options which can promote industrialisation (ie the development of increasing returns activities, particularly in manufacturing) given constraints and opportunities at national, regional and global levels of governance. The definition is developed into an analytical framework for policymaking in the form of a three-by-three square matrix, as presented in Table 1. The legal dimension corresponds to *de jure* policy space, ie the formal rules that determine what industrial policies can be pursued (Mayer 2009).

The political-institutional dimension captures the *de facto* informal political and institutional rules that determine which industrial policies can be feasibly implemented given the overall distribution of power – ie political settlement – and institutional setting. This builds on the concept of 'political feasibility' (Khan, Andreoni, and Roy 2016) to refer to both the political difficulty of enforcing a particular strategy (based on the extent to which the interests of powerful groups are challenged) and the governance capabilities and institutional arrangements required to implement it effectively. For instance, removing a subsidy from an underperforming but politically connected firm requires a state agency to have both the organisational capabilities to monitor and evaluate performance, and also sufficient political power vis-à-vis the firm.

The economic dimension covers how the *de facto* organisation of systems of production and exchange make some policies more viable than others. Economic viability has been conceptualised by Andreoni and Scazzieri (2014) in terms of 'structural feasibility', ie the set

Table 1. Multidimensional and multilevel industrial policy space in the EAC T&A sector.

Dimensions levels	Legal ('permitted')	Political-institutional ('feasible')	Economic ('viable')
National	National legal systems: procurement acts, EPZ frameworks, trade remedies regimes	Domestic political settlements, national implementation capabilities, skills training systems, industrial financing mechanisms	Local production system, firm capabilities, national value chains, sector performance, power and transport infrastructure, domestic demand
Regional	**EAC shared policy frameworks (CET, duty remission scheme, EPZs etc.)**; Rules of Origin in EAC, SADC, COMESA, AFCFTA, TFTA	**Stays of application, NTBs, used clothes phase-out**, regional industrial policies and implementation capabilities	Regional market demand, regional value chains, trade and industrial complementarities, buyer demands
International	**Preferential trade arrangements** (**AGOA**, EBA, etc.), multilateral agreements (WTO)	**Geopolitical pressures (eg conditions on market access)**, aid dependence and donor interests	Market access via trade agreements, concentration and asymmetric power in GVCs, TNC strategies

Source: Authors' own elaboration. Issues in **bold** are treated in the following sub-sections.
SADC: Southern African Development Community, COMESA: Common Market for Eastern and Southern Africa, TFTA: Tripartite Free Trade Area, EBA: Everything But Arms..

of production processes that the structural conditions of an economic system allow for. Key economic factors affecting the viability of particular industrialisation pathways include the technological capabilities of firms and the nature of linkages and complementarities between firms, clusters and economic sectors.

Bringing together diverse aspects of the design and implementation of industrial policy in a multi-dimensional as well as multi-level framework, including national, regional and global scales, highlights policy space opportunities, constraints and trade-offs. Most policy space analyses limit themselves to one or two squares of the framework's matrix to the neglect of others. For example, the legal dimension has been a focus in the literature, but the gap between legally permitted and actually utilised industrial policy instruments (Chang, Hauge, and Irfan 2016) requires investigation of political and economic constraints. Conversely, attention to political and economic factors without reference to legal constraints weakens policy space analyses.

Although the framework analytically distinguishes between dimensions and levels, in reality there are crossovers and interactions which cannot be captured in Table 1 that affect the viability of development strategies. For instance, legal rules evolve in response to changing political settlements, and political rents affect the economic viability of business models. Ultimately these interactions can only be concretely analysed in particular contexts, as will be done in the next section.

Policy space in the East African Community

The EAC was chosen as a case study because it is one of the most integrated regions of LLMICs, and because it has industrialisation strategies in place at regional and national levels (EAC 2012). A sectoral focus allows deeper contextual engagement, with T&A chosen due to its historical role in industrialisation and the competitiveness of EAC countries in exporting cotton and T&A value chain products. To capture interactions between national and regional levels of policy space we focus particularly on a subset of countries within the EAC, namely

Tanzania and Kenya, as the largest T&A exporters and due to their policy focus on industrialisation with T&A as a catalyst sector (interviews #35, #40).

We analyse policy space in the EAC based on qualitative data collected through 64 semi-structured interviews with firms and policymakers (see the Supplementary material), as well as secondary data from official documents such as national and regional industrial policies, official statistics and notifications, legislation and regulations. The EAC's official publication is the EAC Gazette, and notifications relating to the T&A sectors were extracted from the Gazette into a database for this research. Content analysis was carried out on the documents gathered, and the various sources used are referenced.

Table 1 organises the issues emerging from the research into the policy space framework, which are unpacked in the rest of this section. Those highlighted in bold in Table 1 – broadly linked to the incentives available under several key trade agreements and institutions – were identified during interviews as the most critical for the EAC T&A sector and are explored in more depth in the following sub-sections. The first sub-section shows how the creation of the EAC customs union nominally transferred trade policy powers from the national to the regional level. Notwithstanding, we find evidence showing how the duty remission scheme and SOAs allow national authorities to provide targeted trade policy rents to domestic T&A firms and maintain national legal policy space, albeit at the expense of lost regional economic policy space. The second sub-section focusses on how the creation of political-institutional policy space at the regional level by the EAC allowed a new policy option to emerge – the phase-out of used clothing imports – but hard policy space constraints at the global level prevented implementation, because US authorities threatened to remove the AGOA trade preferences underpinning EAC countries' export-oriented industrial strategies.

National legal frameworks crystallise political settlements at a given moment – that is, they codify in the law a certain distribution of power and interests of relevant actors. Although these legal frameworks and rules can in principle be changed if inconvenient, once they are in place they can constrain industrial policy from the perspective of particular actors according to their interests and time horizons. For instance, expatriate employment regulations favour recruiting locally but are seen as costly and restrictive for Tanzanian firms (interviews #2, #5, #7). Also, outdated national legislation may rule out options permitted internationally, eg Tanzanian and Kenyan legal systems do not allow for WTO-approved 'trade remedies' (anti-dumping, countervailing, and safeguard measures). However, favourable laws and regulations can expand policy space, eg public procurement, with Tanzanian and Kenyan legislation enabling policymakers to use state purchasing power to favour domestic suppliers and build the capabilities of local firms (interviews #1, #2, #9).

Regional-level legal policy space in the EAC is largely defined by its customs union, explored in the second sub-section, but here we highlight how Rules of Origin (ROO) can curtail the expansion of economic policy space in regional agreements. Tanzania is a member of both the EAC's and Southern African Development Community (SADC)'s FTA, but restrictive ROO for T&A products in SADC prevent market access for many firms (interviews #4, #5, #7, #11). SADC's 'double transformation' ROO aim to promote domestic manufacturing by requiring garments be made locally from yarn rather than imported fabric; however, it can be argued that allowing manufacture from imported inputs – as in the EAC – increases prospects for rapid industrialisation (Iwanow 2011; EAC 2015). In Tanzania, vertically integrated firms (producing fabrics and clothing) benefit greatly from SADC market access, while assembly-only garment manufacturers (using imported fabrics) are not eligible. Yet the vertically integrated firms were established in the 1960s and no new investment has been made in Tanzania to serve the South African market under SADC, in either garment or textile manufacture. This evidence suggests that for regional integration initiatives such as AfCFTA, restrictive ROO for T&A products may not offer the anticipated benefits in terms of industrial investment, instead constraining the anticipated expansion of economic policy space.

At the global level, preferential trade arrangements (PTAs) are the defining feature of legal policy space affecting the EAC T&A sector, especially the USA's AGOA which is explored in the second sub-section below. The EU also offers least developed countries(LDCs) duty-free market access for Everything But Arms (EBA), but the EAC does not export significant T&A volumes to EU markets. Kenya ceased to be eligible for the EBA scheme when it 'graduated' from LDC status but retained similar market access by signing the reciprocal Economic Partnership Agreement (EPA) between the EAC and the EU. Tanzania and Uganda's decision not to implement the EPA means it cannot come into force, but so far Kenya's EU market access has remained unaffected (interview #55). The divergent responses to the EU EPA despite the EAC's nominally shared trade policy show that the need for legal policy space – to maintain tariffs on EU imports or to guarantee EU market access – outweighs the imperative towards regional policy coherence. The WTO is a global-level legal framework that can severely limit industrial policy space (Wade 2003) but apparently not in the EAC where several countries apply tariff rates above the permitted 'bound' rates (WTO 2019). This shows that transgressions of formal rules at the global level are likely to go unchallenged unless particular economic interests are at stake (see also Chang, Hauge, and Irfan 2016).

National-level political-institutional policy space is impacted by the clientelist nature of EAC political settlements (Booth et al. 2014), whereby organisational 'holding power' is not aligned with formal institutions, and policies that threaten the interests of powerful groups are likely to fail (Khan 2018). For example, EAC T&A manufacturers frequently call for the reversal of the systematic undervaluation of clothing imports which depresses demand and prices (Andreoni and Tasciotti 2019). However, the practice provides rents for powerful groups who control the import trade and also cheaper goods for disadvantaged groups more likely to mobilise, thus financing the political settlement. Likewise, powerful exporters have been able to lobby for exemption from EPZ rules to access informal rents, as already documented in Tanzania (Whitfield et al. 2015; Andreoni, Boys, and Therkildsen 2022) but less so in Kenya where the EPZ authority is seen as a 'pocket of efficiency' (Tyce 2019, p. 557). We found that firms in Kenyan EPZs could 'roll over' their 10-year window of corporate tax exemption by rebranding themselves as new companies despite having the same factory, personnel and buyers (interviews #15). This connects to another key element of national political-institutional policy space, namely weak public sector governance capabilities: in Tanzania and Kenya, T&A strategies were funded by donors and written by external consultants (eg ROK (Republic of Kenya) 2015; URT (United Republic of Tanzania) 2016), and contain long lists of interventions assigned to agencies that lack the resources to implement them (interviews #23, #35, #37, #48).

At the regional level, political-institutional policy space is characterised by the use of SOAs, NTBs and shared policymaking towards used clothes – all covered in the second sub-section. Here we highlight the EAC (2019) regional T&A strategy document. Like the national T&A strategies it was drafted by external consultants and lists many objectives and actions across the value chain without providing guidance on prioritisation, sources of funding, or implementation modalities. The document calls for 'harmonization' of electricity tariffs to USD 0.05 per kWh, with no roadmap for Tanzania and Kenya where firms' reported electricity costs average USD 0.10 and USD 0.17 per kWh, respectively. The document is also inconsistent on backward integration, calling for removal of duties on all inputs while also calling for a 10% tariff on imported grey fabric and 25% on printed fabric. EAC officials acknowledged that the Secretariat's limited implementation capabilities and resources mean that national authorities will take forward regional policy initiatives according to their interests (interviews #53, #55, #56). The political-institutional policy space created by the EAC in T&A is effectively limited to coordination of national initiatives, and will remain so until states transfer significant powers and resources to regional institutions.

Global-level political-institutional policy space is marked by geopolitical pressures and conditions accompanying unilaterally granted trade preferences as with AGOA, discussed in the second sub-section. Also, EAC countries rely on donor funding for development projects and around half the EAC institutions' budget, affecting which industrial and regional policies are supported. EAC officials reported mixed approaches by donors, with some more willing to fund EAC priorities while others only finance areas of their own interest such as trade in services, competition policy and intellectual property rights (interview #54). This makes it more difficult for resource-constrained regional institutions to finance ambitious industrial policy initiatives that aim to challenge the dominance of TNCs located in donor countries in the Global North. In Tanzania for example, donor financing of scoping studies built momentum towards the construction of an industrial park for GVC-integrated production facilities subordinate to foreign-owned TNCs (interview #35).

Economic policy space at the national level is defined by the local production system including the capabilities of firms, their position in different value chains, domestic infrastructure quality and market demand. Research in this area found that national value chains (NVCs), RVCs and GVCs each offer distinct opportunities to EAC T&A firms in terms of upgrading and other outcomes. GVCs support a narrower range of functions linked to garment assembly but also encourage higher product complexity and employment creation. NVCs and RVCs support vertically integrated business models and higher-value activities such as design and branding, and also allow for learning before entry into more demanding but potentially lucrative global markets. Overall, Kenya's sustained apparel exports to the USA and Tanzania's functional and product upgrading from cotton to regional and global manufactured exports indicate increasing competitiveness (Boys and Andreoni 2020). Nevertheless, interviewees listed constraints shaping national-level economic policy space, particularly weak domestic demand and infrastructure, high costs of electricity and industrial finance and low skill levels.

Expanding regional-level economic policy space is a motivation for EAC integration, but this is limited by the use of national DRs and SOAs (discussed in the next sub-section below). Nevertheless, RVCs in the EAC T&A sector offer opportunities for upgrading, with Kenyan and South African buyers being sufficiently demanding on quality and price (Boys and Andreoni 2020). EAC officials suggested RVCs should capitalise on regional complementarities including Tanzania and Uganda's cotton production and Kenya and Tanzania's apparel manufacturing capabilities (interviews #53, #55). However, many national policy respondents were unwilling to accept existing specialisation patterns. This would be expected where countries specialise in raw material exports, but Kenyan officials were even unwilling to accept focussing on high-value manufacturing segments of an RVC, insisting that Kenya will also invest in cotton production (interviews #38, #41). They view the regional supply of raw materials as unreliable due to the ongoing EAC trade disputes, but also want to deliver benefits to politically important agricultural producers through greater local demand for cotton. Furthermore, RVC development is inhibited by the mismatch between the fabrics demanded by GVC-integrated apparel assemblers and those supplied by regional textile mills. Global buyers require their suppliers to use specific, high-quality inputs to achieve product consistency which are not available locally. Corroborating this, GVC firms pointed to the strong incentives they face to source locally wherever possible as it would allow lead times to be dramatically reduced, another major priority of buyers.

The global T&A industry has changed significantly, with major implications for the economic policy space of countries seeking to industrialise. T&A was early to exploit the fragmentation of international production into GVCs facilitated by incentives for FDI in EPZs of LLMICs, with the latter's share of global clothing exports increasing from 25% to over 80% (Pickles et al. 2015). Trade policies, especially the Multi-Fibre Arrangement (MFA) quota system, resulted in production relocation to LLMICs. The MFA phase-out reduced incentives in uncompetitive countries, benefitting China particularly. T&A is still viewed as having simple technologies and low barriers to entry, alongside strong potential to rapidly create employment, earn foreign exchange, and build upstream linkages. However, this picture is challenged by recent GVC developments. Firstly, the fierce competition between existing apparel exporters creates difficulties for newcomers to establish market share. Second, buyers and first-tier suppliers dominate higher value design and branding value chain functions, relegating LLMIC firms to lower value apparel assembly, with functional upgrading difficult to achieve. Third, market power asymmetries squeeze LLMIC supplier margins while increasing demands in terms of quality, lead times and labour standards (Milberg and Winkler 2013; Whitfield, Staritz, and Morris 2020).

Not-so-common tariffs: tensions between legal and economic dimensions at national and regional levels

The EAC customs union was implemented from 2005, with the CET aligning import tariffs,[1] and was identified by interviewees as a defining feature of policy space in the EAC T&A sector. A customs union curtails policy space by transferring trade policy decisions – eg which infant industries to protect with import tariffs – from the national to the regional level. However, the EAC CET as implemented limits the loss of national autonomy through a duty remission scheme and ad hoc SOAs, which provide flexibility to deviate from customs union rules. These are often viewed as the result of lobbying by interest groups (Bünder 2018), but we argue they also represent states reclaiming industrial policy space.

The EAC customs union also limits policy space by liberalising trade internally, ruling out industrial policies protecting domestic firms from regional competition. This would be expected to entrench pre-existing specialisation patterns – as in other cases of 'asymmetrical integration' (Reinert and Kattel 2013) – since building production capabilities where neighbours are established becomes harder. Trade liberalisation within the EAC contrasts with East African integration in the 1960s where tariff-free trade was limited to certain sectors and others could be excluded from regional competition (Mshomba 2017).

EAC duty remission scheme

DRs and SOAs limit the loss of legal policy space through the customs union, but this is usually achieved through restricting sale in other EAC countries, thus curtailing economic policy space – one of the EAC's main benefits. DRs reduce tariffs paid and are granted to individual firms for specified quantities of inputs used to make specific goods, the sale of which may be subject to conditions. National requests for DRs are generally granted by other EAC members on the condition that final goods sold in other EAC countries attract the CET rate of duty. A 'national DR' specifies goods are to be sold in domestic markets and an 'export DR' is for extra-EAC exports, whereas the little-used 'regional DR' has no such condition (interview #52).

The use of DRs in the EAC T&A sector has varied between countries and over time, with implications for legal policy space as shown in Tables 2 and 3. Table 2 shows the number of products listed as eligible for DRs and Table 3 shows the actual uptake of duty remission by firms. The DR scheme's use increased dramatically to 2020, consisting mostly of national DRs forgoing the expanded market access offered by the EAC. This suggests the benefits available to firms through reduced input costs outweigh potential benefits from regional market access, although there are suggestions that DRs are prone to corruption and used to avoid taxes on finished products instead of intermediates (Frazer and Rauschendorfer 2019).

Rwanda has used the DR scheme most prolifically, especially national DRs. By contrast, Kenya has granted few national DRs, preferring export DRs – again forgoing EAC market access – reflecting the higher export capabilities of Kenyan T&A firms. Uganda and Tanzania tend to offer national DRs, but their firms saw far less uptake than in Rwanda. In Tanzania, low uptake was attributed to mistrust between the business community and politicians resulting in firm DR requests not being approved (interview #24). From 2009 to 2020, seven of the firms surveyed participated in the EAC duty remission scheme.

Stakeholders expressed frustration at the loss of market access under national DRs, and there have been efforts to produce a common list of inputs eligible for regional DRs to benefit all regional manufacturers while retaining EAC market access (interviews #54, #57). This was anticipated for 2018–2019, but Kenya withdrew support, and ultimately Uganda, Tanzania and Rwanda submitted separate lists of products eligible for national DRs. Confusion ensued: a Tanzanian firm applied for a regional DR but was granted a national DR instead, resulting in them withdrawing from the scheme altogether, preferring to pay 10% input duties and sell duty free within the EAC (interview #5).

In 2019, countries agreed on 22 T&A products eligible for regional DR, mainly synthetic yarns and accessories, with no conditions on sale of finished goods or expiration date. A further 75 products were eligible for a novel, hybrid national–regional DR: Rwanda, Uganda,

Table 2. Number of T&A products listed as eligible for duty remission in June EAC Gazettes.

Country	2013	2014	2015	2016	2017	2018	2019	2020	Grand total
Rwanda	0	26*	12*	12	12	294	209	257	822
Uganda	12*	12*	11*	11	111	100	10	51	318
Tanzania	0	0	0	0	0	113	36	36	185
Uganda, Rwanda, Burundi, Tanzania	0	0	0	0	0	0	75*	75*	150
Not specified	0	1*	0	0	0	1	23*		26
Burundi	0	0	0	0	0	0	0	23	23
Kenya	0	0	0	0	0	0	0	11*	11
Grand total	**12**	**39**	**23**	**23**	**123**	**508**	**353**	**453**	**1535**

Note: All are specified as eligible for National DRs except those marked with an asterisk (*), where no restriction on sale of final goods is specified. Eligible products are not listed prior to 2013. All products are automatically eligible for export DRs.

Table 3. Duty remission granted on T&A inputs in EAC member states.

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Rwanda	Firms	0	1	0	1	1	1	1	8	17	41	61
	Products	-	23	-	1	21	11	32	222 x	696	3010	2995
Uganda	Firms	0	0	0	1	3	5	2	4	6	10	9
	Products	-	-	-	4*	16*	21	4*	27	44	92	89
Tanzania	Firms	0	0	0	0	0	0	0	0	2	1	1
	Products	-	–	–	–	–	–	–	–	59	74	84
Kenya	Firms	1	5	3	6	1	2	5	2	1	4	9
	Products	2 X	16 X	9 X	35 X	24 X	8 x	71 X	5 X	6 X	11*x	24*x
Burundi	Firms	0	0	0	1	1	1	1	1	1	1	1
	Products	-	–	–	73	73*	73*	73	111	15	19	22
EAC total	**Products**	**2**	**39**	**9**	**113**	**134**	**113**	**180**	**365**	**820**	**3206**	**3214**

Note: Data for 2020 is incomplete: January–August only. All are specified as exclusively eligible for National DRs except those marked with an asterisk (*), where for some products no restriction on sale of final goods is specified; a capital 'X' indicates all products fall under an export DR, whereas a small 'x' indicates some products fall under an export DR.

Burundi and Tanzania agreed a common list of T&A inputs eligible for duty free import for one year, with finished products able to be sold duty free in participating countries but attracting CET rates if sold in Kenya. The list was re-published in June 2020. In addition, Rwanda, Uganda and Tanzania submitted lists of 209, 10 and 31 products respectively eligible for purely national DRs in 2019. Efforts to maintain regional market access under the DR scheme have been a partial success, with 10 Kenyan firms granted regional DRs for polyester yarn in 2019 and 2020. Despite firms in other countries importing inputs eligible for regional or hybrid DRs, they were overwhelmingly granted national DRs, perhaps due to the complications of implementing the overlapping DR schemes – the same firm can apply for different DRs with varying conditions to make the same finished products.

Several reasons explain the difficulty agreeing a common approach to T&A inputs despite the sector being a strategic regional priority. First, information about inputs available in the region is lacking, with especially Kenyan producers reporting capacity to produce inputs which manufacturers in other countries think have to be imported from global markets (interviews #4, #9, #12, #18, #19). Second, inputs produced in the region are often more expensive than imports from eg China, especially with duty remission (interviews #5, #21). Third, the rate of duty remission to grant is controversial: industrialists favour zero rates while fiscally constrained national governments are unwilling to forgo revenues (interview #41). Fourth, difficulties enforcing customs rules due to capacity constraints and illicit practices result in suspicion that national DR restrictions on EAC sale are not always adhered to, and sometimes the retaliatory imposition of NTBs such as import bans (interview #36). Fifth is the broad tendency towards the use of tit-for-tat measures, eg interviewees cited Kenya's withdrawal from the shared EAC list of T&A inputs as retaliation for other countries' imposition of restrictions on imports from Kenya the previous year, the latter ostensibly because of Kenya's SOA waiving the rules on sales of produce from EPZs (interview #5, #54).

Stays of application

SOAs allow EAC members to deviate from customs union rules (often to provide rents to manufacturers), but commonly also negatively impact market access and economic policy space through their association with NTBs, a primary obstacle to regional integration (TFTA 2020). SOA requests are almost always granted by other EAC member states, although if input tariffs are lowered, the resulting produce may not be sold duty-free within the EAC. SOAs usually raise import tariffs above CET rates, as in the case of finished T&A products (eg Kenya's 35% tariff on garments instead of the CET's 25%), locally available inputs (eg Uganda and Kenya's tariffs of 35% or more on certain fabrics) and used clothing. Other important applications of SOAs have been on EPZ rules and used clothes, the latter discussed in the next sub-section.

Controversy around EPZs illustrates regional policy space tensions, especially Kenya's 2017 SOA to remove limits on local sale of EPZ T&A produce. EPZs are a prominent industrial policy tool across EAC countries, offering incentives to export-oriented manufacturers while limiting domestic sales to avoid unfair competition with non-EPZ firms (interviews #33, #46). From 2005 national EPZ frameworks had to conform to EAC rules, which limit domestic sales to 20% of output and define the 'domestic' market as the EAC customs territory (EAC 2004). Companies exporting primarily to EAC countries therefore had to find new markets for a significant share of their production. Paradoxically, the EAC EPZ framework resulted in less policy space to pursue industrial strategies based on regional exports from EPZs. Kenya's SOA allowed T&A EPZ firms unlimited sales within Kenya, but any goods sold in other EAC countries would attract CET tariffs. Kenyan firms selling locally complained of unfair competition from heavily subsidised EPZ firms while Tanzania and Uganda imposed CET tariffs on all garment imports from Kenya, citing an inability to differentiate between goods produced inside and outside EPZs. The lack of duty-free access to key EAC markets resulted in loss of market share for Kenyan firms (interview #19). Kenya's SOA reclaimed national legal policy space at the expense of lost regional economic policy space, highlighting a fundamental tension inherent in regional integration initiatives.

Used or new? Tensions between political-institutional and economic dimensions at the regional and global levels

Used clothing is a prominent case of regional T&A industrial policy, which illustrates tensions between political-institutional and economic policy space dimensions at the regional and global levels. We argue that while coordination through the EAC created political-institutional policy space at the regional level to pursue import substitution – the phase-out of used clothing imports – implementation was prevented by a binding policy space constraint at the global level, ie the ability of the USA to remove unilaterally granted AGOA trade preferences underpinning employment and exports.

Regional integration established shared institutions like the EAC Secretariat and Council of Ministers, creating potential political-institutional policy space for strategic cooperation in new areas. The EAC Secretariat drafts regional regulations and policies, including an overall regional vision (EAC Vision 2050), industrialisation strategy (EAC 2012) and T&A sector strategy (EAC 2019). As mentioned in relation to the latter strategy, the EAC Secretariat's mandate and ability to operate independently of member states is limited. EAC officials view the regional industrial policy towards T&A as defined by a combination of policy documents, directives by heads of states at EAC summits, and various measures implemented to promote the sector (interview #53).

Global-level factors curtail the set of politically and institutionally feasible policy options for the EAC T&A sector, particularly the terms of key PTAs like the USA's AGOA. Most foreign-owned companies interviewed said AGOA was essential for their competitiveness in East Africa. AGOA offers duty-free US market access for T&A products with relaxed 'single transformation' ROO: the Third Country Fabric (TCF) derogation allows apparel to be made from imported fabric. AGOA offers significant rents to manufacturers, but in return the USA demands beneficiary countries accept 'market-based' economics and the elimination of 'trade barriers'. The 2015–2025 AGOA extension provided for the withdrawal of market access in case of non-compliance and out-of-cycle eligibility reviews. These rules restrict the industrial policy options of beneficiary countries, particularly as the final arbiters of (non-) compliance are US authorities.

In 2015, EAC heads of state announced the phase-out of used clothing imports over three years to promote the regional T&A industry, and in 2016 the specific duty on used clothing doubled from USD 0.20/kg to USD 0.40/kg (see Table 4). Used clothing imports had exploded since trade liberalisation to nearly USD 350 million in 2018, providing affordable high-quality garments to consumers and income to small traders. Yet used clothes feature prominently in public debates as a cause of declining domestic T&A production, visibly accompanying a change in consumer tastes from traditional fabrics to Western-style clothing. Nevertheless, stakeholders reported that the duty rate increase had been planned since 2013 because inflation had widened the gap between USD 0.20/kg and 35%, and was not meant to be linked to the phase-out announcement (interview #34). When a US exporter of used clothes to the EAC complained, the new Trump administration responded by threatening to remove AGOA access if the tariff increase was not reversed. After lengthy negotiations all EAC countries complied except Rwanda, which lost AGOA eligibility (Wolff 2021).[2]

While the episode highlights policy space tensions, its significance for the region's T&A industry was downplayed by interviewees. Although used clothes are more visible than other causes of industrial decline, stakeholders stressed the greater importance of weak regional demand, low skill levels in the workforce, high costs, weak infrastructure etc. Stopping used clothing imports was not seen as a panacea for producers, and its political advisability is questionable given the importance of used clothes to consumers and small traders. Greater regulation of used clothing imports was generally seen as desirable to increase importer costs (eg by requiring clothes be grouped according to product type) and to deal with hygiene concerns by banning certain categories (eg underwear). A greater perceived problem than used clothes per se is the mis-declaration of new clothes as used to reduce tax liability, a form of import undervaluation which largely falls under the purview of national policy.

Stakeholders also highlighted how AGOA affects policy space by favouring integration into GVCs, making it harder for EAC countries to pursue industrial policies focussed on

Table 4. Tariffs applied on worn clothing in EAC countries (HS 6309.00.10).

	2012–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
Rwanda	35% or USD 0.20/kg	USD 2.5/kg				
Kenya		35% or USD 0.40/kg	35% or USD 0.20/kg			
Tanzania			35% or USD 0.40/kg		35%*	
Uganda						
Burundi						

Source: Authors' own elaboration based on EAC Gazettes.
*Tanzania, Uganda and Burundi switched to the 35% ad valorem rate in February 2018.

backward linkage creation in line with their comparative advantage in cotton-based T&A products. The TCF increases rents to manufacturers, but also reduces incentives for investment in local yarn and fabric production (Edwards and Lawrence 2010). Some interviewees viewed the main beneficiaries of AGOA as Asian textile manufacturers, since such a significant share of the cost of garments (60–70%) is accounted for by imported fabric (eg interview #4). Furthermore the USA's MFN tariff (from which AGOA deviates) determines rents by product, with imports of clothing made from synthetic fabrics attracting higher tariffs (25–32%) than cotton (13–17%) (MITI. 2017). By reducing tariffs on all T&A products to zero, AGOA provides greater duty advantages for manufacturers using synthetic over cotton fabrics. Given the availability of cotton lint in East Africa, this acts in the opposite direction to the region's comparative advantage, thus limiting the extent to which AGOA contributes to backward linkage creation, exacerbating the effect of the TCF derogation.

With AGOA expiring in 2025, some firms will close their production facilities entirely if it is not renewed, while others will seek alternative markets while scaling down operations (interviews #6, #8, #11, #20). Successive US administrations have pushed for bilateral FTAs with individual African countries, involving reciprocal tariff reductions, instead of unilateral trade preference schemes like AGOA (interview #28). African policymakers hope that AfCFTA members negotiate as a bloc with the US, but this would require significant progress in AfCFTA implementation and unity in the face of US diplomacy promoting bilateral deals, with Kenya already negotiating a bilateral trade deal with the USA. In any case, the potential expiry of AGOA in 2025 severely undermines the efforts of African countries to promote investment in garment manufacturing on the prevailing model of duty-free access to the US market and single transformation ROO, with interviewees reporting that a clear 10-year window of policy stability is preferred in order for new investments to be considered (interview #21).

Conclusion

Applying the proposed analytical framework to industrial policy space in the EAC T&A sector results in three main conclusions. First, despite general assertions in the literature that 'South–South' regional trade and cooperation initiatives have minimal impact on policy space (Thrasher and Gallagher 2010; Chang, Hauge, and Irfan 2016), the range of impacts identified in this paper shows the need for detailed contextual analysis. Second, it is important to differentiate between factors shaping industrial policy space at the national, regional and global level to identify trade-offs, since positive developments in one area can be offset by unfavourable conditions in another, as seen most clearly in the case of used clothes. Third, it is necessary to consider the legal, economic and political-institutional dimensions of industrial policy space, such that an assessment of a trade agreement's impact on industrial policy space takes into account at least (1) any loss of legal policy instruments (eg to restrict trade from partners to the agreement), (2) any increase in market access or potential investment for key economic sectors and (3) any changes to the relevant national/regional political settlements affecting specific sectors and the capabilities of the institutions implementing and enforcing policies.

In our analysis of industrial policy space in the EAC T&A sector we identified strong interactions and tensions between the national and regional dimensions of policy space, with much of the control of trade policy – nominally transferred to the EAC customs union – in fact retained by national authorities through the use of duty remissions and SOAs. As a result, the expansion of EAC economic policy space – a major motivation of regional integration in the first place – is undermined because of the potential for unilaterally granted DRs and SOAs to rule out duty-free sale in other EAC countries, reducing investor confidence in the integrity of the regional market. The correlation between SOAs and NTBs highlighted in interviews (eg interview #54) is well illustrated by the case of Kenya's SOA to permit firms in EPZs to sell more output in Kenya, with Tanzania and Uganda responding by banning all duty-free T&A imports from Kenya, harming the interests of non-EPZ firms in Kenya and damaging trust in RVC development.

Tension was also evident between regional and global policy space dimensions, with regional cooperation expanding political-institutional policy space by providing mechanisms for industrial policymaking at the supra-national level, especially the proposal of a coordinated phase-out of used clothing imports in the EAC. However, the regional proposal was not implemented by most countries because of industrial policy space constraints at the global level, namely the ability of the US to remove unilateral trade preferences underpinning thousands of jobs and the entire model of export-oriented light manufacturing in EPZs. For Kenya and Tanzania the loss of this economic policy space at the global level was considered to outweigh the benefits of the potential economic policy space created by phasing out used clothing imports, resulting in non-implementation.

The findings have important implications for the EAC's regional integration strategy. Custom unions and FTAs in regional blocs generate politically difficult trade-offs, resulting in governments reclaiming national policy space and potentially exercising an 'exit' option, either *de jure* or *de facto*. Further examples of this within the EAC are the protracted negotiations over the revision of the CET and sensitive products list, as well as pervasive smuggling of products across the region. Furthermore, current plans are for the EAC to become a monetary union with a single currency. The unwillingness of EAC member states to give up national policy space in the area of trade policy should call into question attempts to harmonise monetary policies across the region without building in flexibilities. In general, regional integration initiatives should take into account political realities, particularly the accountability mechanisms and rent distribution systems that remain largely within national borders.

This paper also has broader implications for regional industrial policy, RVCs and LLMIC integration projects like AfCFTA. Regional industrial policy aims to strengthen and build on RVCs that have largely emerged organically, requiring a complex balancing of national autonomy and regional policy space. Integration initiatives should prioritise sectoral value chains whose economic viability is primarily assured at the regional level, due to scale economies and production complementarities. In other sectors it may be more politico-institutionally feasible to deepen domestic markets prior to integration by retaining national legal policy space for time-bound infant industry protection. The analytical framework and the EAC case presented here suggest a cautious approach to continental integration under AfCFTA. As larger economies with significant industrial policies like South Africa and Nigeria implement AfCFTA, further research should explore interactions between regional integration and policy space for development.

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Notes

1. For T&A at the time of writing these were: 0% tariffs on cotton and synthetic fibres; 10% on cotton and synthetic yarns, buttons and zippers; 25% on cotton and synthetic fabrics; 25% on garments and textile articles; 50% on traditional fabrics.
2. Tanzania, Uganda and Burundi have now dropped the specific duty rate (USD 0.4/kg) which is obsolete, being always less than 35% of value. Nevertheless, EAC policymakers would prefer the USD 0.4/kg rate since it is easier to implement, not requiring containers to be opened and the value of goods to be assessed.

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