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# PUBLIC GOVERNANCE AND TECHNOLOGICAL CAPABILITIES IN THE KENYAN LEATHER INDUSTRY

GIOVANNI PASQUALI  AND VALENTINA DE MARCHI\*

## ABSTRACT

This article focuses on small- and medium-sized enterprises (SMEs) in Kenya's leather sector. It explores how public governance impacts SMEs' technological capabilities and access to global value chains (GVCs). By public governance, we mean all government regulations and interventions set in place to shape the organization of value chains. Drawing on interview data, the article compares Kenya's leather handbag and footwear manufacturers. On the one hand, handbag SMEs have succeeded in upgrading and entering GVCs through a combination of foreign knowledge and partnership with local universities. Despite meeting with public governance barriers, this process has enabled the transfer of technological capabilities from foreign-owned firms to a number of emerging SMEs owned by Kenyan nationals. On the other hand, leather footwear production was developed during the 1970s by large firms under state support. As protectionist measures were lifted in the 1990s, firms shut down and producers moved into the informal economy, replicating outdated capabilities in a context of price-driven competition, thereby limiting upgrading and participation in GVCs. The article concludes by comparing these findings with the experience of Kenya's apparel manufacturers and highlighting the critical need for GVC research to account for the role public governance in shaping firms' technological capabilities and access to global markets.

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## *Introduction*

OVER THE LAST THREE DECADES, VALUE CHAINS HAVE UNDERGONE A PATTERN OF GLOBAL DISPERSION. Lead firms

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in developed countries have increasingly focused on core competencies, externalizing less profitable up- and downstream activities to suppliers in the global South and benefitting from enhanced competitiveness and lower labour costs.<sup>1</sup>

A traditional argument for developing countries has been that participation in global value chains (GVCs) ‘puts firms on potentially dynamic learning curves’, facilitating the transfer of ‘technological capabilities’ (TCs), defined as the ‘knowledge and skills required to bring a product to market efficiently’.<sup>2</sup> TCs further enable firms to improve competitiveness and economic returns by capturing increasing shares of value added—a concept known as ‘economic upgrading’.<sup>3</sup>

However, as the case of several African countries shows, managing to grow a manufacturing base out of participation in GVCs is not straightforward.<sup>4</sup> Indeed, a rich literature has emerged, arguing that participation in GVCs is not enough to trigger economic upgrading.<sup>5</sup> Particularly for small- and medium-sized enterprises (SMEs) in developing countries, ‘public governance’ defined as the regulatory institutions and legislation influencing the formation and organization of value chains is critical to enable the development of TCs.<sup>6</sup> This occurs because effective public governance fosters the reallocation of resources from inefficient and low-productivity sectors towards more productive and efficient ones, thereby increasing competitiveness in global markets.<sup>7</sup> Especially in sub-Saharan Africa where TCs and economic upgrading among manufacturing SMEs have been lagging behind, public governance has been indicated as an important engine of industrialization that facilitates firms’ development of TCs and their successful integration into global markets.<sup>8</sup>

1. Stefano Ponte, Gary Gereffi and Gale Raj-Reichert, ‘Introduction’, in Stefano Ponte, Gary Gereffi and Gale Raj-Reichert (eds), *Handbook on global value chains* (Edward Elgar Publishing, Cheltenham, 2019), pp. 1–28.

2. Sanjaya Lall, ‘Technological capabilities and industrialization’, *World Development* 20, 2 (1992), pp. 165–186.

3. Gary Gereffi and Joonkoo Lee, ‘Economic and social upgrading in global value chains and industrial clusters: Why governance matters’, *Journal of Business Ethics* 133, 1 (2016), pp. 25–38; Gary Gereffi, ‘International trade and industrial upgrading in the apparel commodity chain’, *Journal of International Economics* 48, 1 (1999), pp. 37–70.

4. Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Kjær, *The Politics of African Industrial Policy* (Cambridge University Press, Cambridge, 2015).

5. Jan Fagerberg, Bengt Å. Lundvall, and Martin Srholec, ‘Global value chains, national innovation systems and economic development’, *European Journal of Development Research* 30, 3 (2018), pp. 533–56; Carlo Pietrobelli and Roberta Rabellotti, ‘Global value chains meet innovation systems: Are there learning opportunities for developing countries?’, *World Development* 39, 7 (2011), pp. 1261–69.

6. Matthew Alford and Nicola Phillips, ‘The political economy of state governance in global production networks: Change, crisis and contestation in the South African fruit sector’, *Review of International Political Economy* 25, 1 (2018), pp. 98–121.

7. Lindsay Whitfield, ‘How countries become rich and reduce poverty: A review of heterodox explanations of economic development’, *Development Policy Review* 30, 3 (2012), pp. 239–260.

8. *Ibid.*; Whitfield et al., *The Politics of African Industrial Policy*.

The literature on industrial policy in the subcontinent has, however, focused on the conditions under which ruling elites and state bureaucrats interact to drive development outcomes.<sup>9</sup> Conversely, less attention has been paid to how firms perceive and react to public governance in a way that directly affects their TCs and the extent to which variation in the assets and resources that firms control can lead to divergent development outcomes even within the same country and sector.<sup>10</sup> In such context, empirical research analysing the interaction between public governance and TCs in sub-Saharan Africa remains limited.<sup>11</sup> Furthermore, whilst several studies call for a better understanding of the role of governments in shaping firms' participation in global markets,<sup>12</sup> the link between public governance and upgrading has rarely been explored.<sup>13</sup>

We try to fill this gap by asking: how does public governance shape TCs and participation in GVCs in the context of sub-Saharan African SMEs? We address this question through a comparative study of Kenya's leather footwear and handbag industries. Kenya is an exemplary case within sub-Saharan Africa, given its historic influx of foreign capital investments originated in its colonial legacy, its move from an import substitution (IS) to an export-oriented industrialization model, and the long studied role of public governance.<sup>14</sup>

We argue that a focus on inter-firm linkages, which has traditionally dominated GVC studies, is insufficient to explain why certain firms have developed TCs to become competitive within GVCs whilst others have

9. Whitfield et al., *The Politics of African Industrial Policy*; Matthew Tyce, 'The politics of industrial policy in a context of competitive clientelism: The case of Kenya's garment export sector', *African Affairs* 118, 472 (2019), pp. 553–579; Lars Buur, Carlota Mondlane and Obede Baloi, 'Strategic privatisation: Rehabilitating the Mozambican sugar industry', *Review of African Political Economy* 38, 128 (2011), pp. 235–256; Joseph Amankwah-Amoah, 'Explaining declining industries in developing countries: The case of textiles and apparel in Ghana', *Competition & Change* 19, 1 (2015), pp. 19–35; Lindsay Whitfield and Lars Buur, 'The politics of industrial policy: Ruling elites and their alliances', *Third World Quarterly* 35, 1 (2014), pp. 126–144.

10. Lindsay Whitfield and Corenlia Staritz, 'Local firm-level learning and capability building in global value chains', in Stefano Ponte, Gary Gereffi and Gale Raj-Reichert (eds), *Handbook on global value chains* (Edward Elgar Publishing, Cheltenham, 2019), pp. 385–402; De Marchi and Alford, 'State policies and upgrading'.

11. Sanjaya Lall and Carlo Pietrobelli, 'National technology systems in Sub-Saharan Africa', *International Journal of Technology and Globalisation* 1, 3 (2005), pp. 311–342; Staritz and Whitfield, 'Local firm-level learning'.

12. Gereffi and Lee, 'Economic and social upgrading'; Rory Horner and Matthew Alford, 'The roles of the state in global value chains', in Stefano Ponte, Gary Gereffi and Gale Raj-Reichert (eds), *Handbook on global value chains* (Edward Elgar Publishing, Cheltenham, 2019), pp. 555–569.

13. Lindsay Whitfield, Cornelia Staritz, Ayelech T. Melese and Sameer Azizi, 'Technological capabilities, upgrading, and value capture in global value chains: Local apparel and floriculture firms in sub-Saharan Africa', *Economic Geography* 96, 3 (2020), pp. 195–218.

14. Dianah Nguu, Jacob Chege, and Peter Kimuyu, 'Kenya's industrial development. Policies, performance, and prospects', in Carol Newman, John Page, John Rand, Abede Shimeles, Mans Söderbom, and Finn Tarp (eds), *Manufacturing transformation: Comparative studies of industrial development in Africa and emerging Asia* (Oxford University Press, Oxford, 2016), pp. 73–91; Aarti Krishnan, Dirk Willem Te Velde, and Anzette Were, 'Integrating Kenya's small firms into leather, textiles and garments value chains. Creating jobs under Kenya's Big Four Agenda', in *Overseas Development Institute* (London, 2019).

not. Leather handbag manufacturers in Kenya have upgraded through knowledge from managers educated and trained abroad and the support of newly founded fashion and design schools and universities. Over time, this process has enabled the transfer of TCs from pioneering firms owned by Kenyans of Asian and European descent, as well as expatriates, to emerging SMEs owned by Kenyans. We contrast this with producers of leather footwear who first emerged in the 1970s and 1980s under a regime of IS characterized by large subsidized firms. In this period, Kenyan workers' skills were based on technical knowledge, whilst extra-production capabilities such as marketing and branding were mostly overlooked. As protectionist measures were relaxed in the 1990s, many of these firms closed and their workers moved into the informal economy, replicating outdated technical expertise in a context of price-driven competition. Importantly, we argue that this model significantly limited footwear companies' capacity to develop TCs and access GVCs, with repercussions on the country's industrialization process.

The remainder of the article is organized as follows: Sections 2 and 3 present a critical analysis of the literature on public governance and TCs. Section 3 discusses the relevance of Kenya's leather sector to the research question, primarily by showing how a focus on these sectors casts light on the questions of public governance with which we are concerned. Section 4 describes the study's methodology. Section 5 traces the causes of firms' TCs to Kenya's public governance from the IS regime to nowadays. Section 6 discusses results and provides a comparison with Kenya's apparel sector. Finally, Section 8 concludes by presenting the study's contribution to the literature on GVC, industrialization, and related areas.

### *Public governance and industrial policy in GVCs*

The concept of public governance is broadly used in GVC studies to indicate the role of public authorities.<sup>15</sup> It involves the 'formal rules and regulations set by governments at local, regional, and national levels' as well as the inducements and penalties associated with state intervention (i.e. policies), which can, in turn, 'facilitate or hinder economic upgrading'.<sup>16</sup>

The literature on public governance and industrialization in sub-Saharan Africa has focused on the role of governments and ruling elites in catalysing economic transformation from primary commodities to higher value-added manufacturing activities and knowledge-based services.<sup>17</sup> By fostering learning, new industrial capacity, sectorial diversification, and

15. Alford and Phillips, 'The political economy of state governance'.

16. Gereffi and Lee, 'Economic and social upgrading', p. 31.

17. Whitfield et al., *The Politics of African Industrial Policy*; Whitfield and Buur, 'The politics of industrial policy'.

inter-industry linkages, public governance enables firms' competencies and capabilities to access and successfully compete in global markets.<sup>18</sup> For instance, research in the East African region by Staritz and Whitfield<sup>19</sup> shows how public governance has enabled local firms to develop the knowledge and skills required to successfully compete in global markets. Notably, protectionist trade policy and subsidized access to infrastructures have allowed local firms to improve product quality and standards in the domestic market, effectively providing them with a learning platform to meet the cost, quality, and delivery standards of export markets. Furthermore, the Ethiopian government's industrial policy has helped fostering linkages between foreign and local investors within specialized industrial parks, hence favouring the emergence of locally owned companies. Recent studies<sup>20</sup> have also explored the interaction of trade, investment, and labour regulatory regimes in shaping suppliers' access to regional and global apparel value chains in Eswatini, Lesotho, and Kenya. Here, public governance has favoured firms' participation in GVCs by facilitating access to cheap labour, preferential fiscal regimes, export promotion zones, and duty-free trading schemes.

Public governance can also act as an obstacle to firms' upgrading and participation in GVCs. This is the case of Ghana, where detrimental industrial and investment policies have led to the demise of the apparel sector.<sup>21</sup> More specifically, the incapacity of the government to implement clear standards on imported goods following market liberalization in 1983, administrative weaknesses at the ports of entry, and prolonged political and economic instability pushed the industry into a cycle of technological obsolescence and informalization. Public governance acted as a break to upgrading and industrialization also in South Africa's apparel industry, where the recent outflow of regional FDIs towards Eswatini and Lesotho has been linked to the rigid labour legislation and public bargaining process, along with less favourable trade agreements.<sup>22</sup>

Despite this evidence, to the extent that public governance has been discussed in the GVC literature, the debate has focused more on governments and ruling elites as agents shaping economic transformation and competitiveness and less on firms' reception of and reaction to

18. *Ibid.* Horner and Alford, 'The roles of the state'; De Marchi and Alford, 'State policies and upgrading'.

19. Staritz and Whitfield, 'Mapping the technological capabilities'.

20. Giovanni Pasquali, Shane Godfrey, and Khalid Nadvi, 'Understanding regional value chains through the interaction of public and private governance: Insights from Southern Africa's apparel sector', *Journal of International Business Policy* 4, (2021), pp. 368–389; Tyce, 'The politics of industrial policy'.

21. Amankwah-Amoah, 'Explaining declining industries'.

22. Shane Godfrey, 'Global, regional and domestic apparel value chains in Southern Africa', *Cambridge Journal of Regions, Economy and Society* 8 (2015), 491–504.



governments' policies. Industrial policy theory posits that successful implementation of public governance relies on the existence of 'pockets of efficiency'; however, how such pockets emerge and develop their TCs through interaction with public governance is in need of further research.<sup>23</sup> Moreover, GVC studies have prescribed 'intelligent industrial policies' for governments to identify and support industries with the largest upgrading potential,<sup>24</sup> including reducing tariffs on intermediate goods and developing strategies to 'improve the performance of existing industries that link their country to the global economy'.<sup>25</sup> Yet, this emerging literature overlooks how, even within the same sector and country, public governance can achieve very different results depending on 'firms' knowledge-based assets'.<sup>26</sup>

We argue that the same governments' regulatory measures can lead to both 'up-' and 'down-grading' dynamics, with just some firms being able to effectively gain whilst others are often left behind.<sup>27</sup> For instance, it has been shown that some firms are more versatile than others, and there may be times when choosing a regulatory framework consistent with the resources that a firm controls can positively shape the terms of its participation and upgrading in GVCs.<sup>28</sup> Yet, how public governance dynamics play out at the firm-level demands further attention. In this article, we focus on how firms acquire and develop TCs in response to the public governance context in which they operate, highlighting the interdependence between public governance and firms' participation in GVCs.

### *TCs and global governance*

A growing literature suggests that for firms located in developing countries, gains deriving from inclusion in GVCs are not automatic and economic benefits are disproportionately captured by lead firms in developed countries.<sup>29</sup> Additionally, negative implications for firms and workers have been detected too, as participation in GVC often increases competitive pressures on wages and labour conditions.<sup>30</sup> Economic growth and industrialization

23. Whitfield et al., *The Politics of African Industrial Policy*, p. 18.

24. William Milberg and Deborah Winkler, *Outsourcing economics: Global value chains in capitalist development* (Cambridge University Press, Cambridge, 2013), p. 240.

25. Gary Gereffi and Timothy J. Sturgeon, 'Global value chains and industrial policy: The role of emerging economies', in Deborah K. Elms and Patrick Low (eds), *Global value chains in a changing world* (WTO, Geneva, 2013), pp. 329–360 (p. 352).

26. Alice Amsden, *The rise of 'The Rest'. Challenges to the West from late-industrializing economies* (Oxford University Press, Oxford, 2001).

27. De Marchi and Alford, 'State policies and upgrading'.

28. Staritz and Whitfield, 'Local firm-level learning'.

29. Rory Horner, 'A new economic geography of trade and development? Governing south-south trade, value chains and production networks', *Territory, Politics, Governance* 4, 4 (2016), pp. 400–420; Ram Mudambi, 'Location, control and innovation in knowledge-intensive industries', *Journal of Economic Geography* 8, 5 (2008), pp. 699–725.

30. James Murphy, 'Global production network dis/articulations in Zanzibar: Practices and conjunctures of exclusionary development in the tourism industry', *Journal of Economic*

are supported by firms' capacities to leverage learning spillovers in order to foster TCs.

TCs are defined as the skills, knowledge, and organizational structures required to bring a product to market efficiently.<sup>31</sup> These comprise (i) 'investment capabilities' to carry out the initial investment (including accessing the appropriate technology and workforce), (ii) 'production capabilities' to efficiently operate a factory (including using product and process technologies to improve production), and (iii) 'linkage capabilities' to connect with firms and markets (including sharing and acquiring information from suppliers, buyers, and consumers). Importantly, TCs are (re)produced through the knowledge and skills of a firm's employees and can originate from 'external and internal stimuli' within or outside the firm, including employees' education, in-firm learning, and interaction with other firms and institutions.<sup>32</sup>

TCs have been associated with a firm's capacity to capture increasing shares of value added from the production process, thereby improving its competitiveness and economic returns. This process is known as economic upgrading and is extensively discussed in the GVC literature.<sup>33</sup> In other words, a firm must first develop specific TCs in order to achieve economic upgrading: 'technological capabilities are not only at the heart of what makes local firms able to enter GVCs and remain competitive but also "explain the types of upgrading paths they choose"'.<sup>34</sup>

If TCs are required for firms to realize economic upgrading, understanding how to promote them is a key policy issue to support development and industrialization in emerging economies, especially in the context of sub-Saharan Africa.<sup>35</sup> Scholars whose work has bridged the TC and GVC literature have frequently argued that more empirical evidence is required to shed light on how TCs translate into firms' economic upgrading before and after entering GVCs.<sup>36</sup> Staritz and Whitfield<sup>37</sup> identify three major factors that impact the firms' ability to develop TCs. The first, which has been widely studied and discussed, takes place only once firms have entered GVCs and depends on how foreign lead firms organize the flow

*Geography* 19, 4 (2019), pp. 943–971; Nicola Phillips, 'Informality, global production networks and the dynamics of "Adverse Incorporation"', *Global Networks* 11, 3 (2011), pp. 380–397.

31. Lall, 'Technological capabilities', p. 269.

32. *Ibid.*

33. Gereffi and Lee, 'Economic and social upgrading'.

34. Staritz and Whitfield, 'Local firm-level learning', p. 391.

35. *Ibid.*

36. Cornelia Staritz and Lindsay Whitfield, 'Mapping the technological capabilities of Ethiopian-owned firms in the apparel global value chain' (Working Paper 4, Center of African Economies, 2017); De Marchi et al., 'Learning and innovation opportunities'; Whitfield et al., 'Technological capabilities'.

37. Staritz and Whitfield, 'Local firm-level learning'.



of information with suppliers. This is known as ‘value chain governance’, and its scope is beyond the reach of this study.<sup>38</sup> Instead, our focus is on the interaction between the two remaining factors: public governance and firm-specific assets.

Firms’ assets that have been shown to shape TCs include managerial skills, education, professional and social networks, as well as workforce training and research and development activities.<sup>39</sup> Critically, recent evidence has shown that SMEs in sub-Saharan Africa develop TCs more as the result of in-house assets than through knowledge transfer within GVCs.<sup>40</sup> This evidence is nevertheless silent as to whether and how such assets emerge and develop in relation to the public governance context surrounding the firm. In this contribution, we are mostly interested in understanding the role of ‘public governance’ and how it interacts with firm-specific assets in shaping firms’ TCs and upgrading opportunities.

#### *Case study: Kenya’s leather sector*

Spanning agriculture and manufacturing, the leather sector represents a renewable source of growth for developing countries endowed with significant livestock and a growing internal demand for footwear and other leather goods. Research on industrial policy and GVCs has identified the leather sector as a ‘low-hanging fruit’ for developing countries’ participation in GVCs due to its fairly inexpensive technological requirements and widespread employment potential.<sup>41</sup> For this purpose, building capacity within the leather value chain has been indicated as a strategy to foster economic development in Eastern Africa and in Kenya, where livestock contributes about 6 percent of the country’s GDP, making it the third biggest country for livestock population in the subcontinent.<sup>42</sup>

In 2016, the leather industry accounted for just 0.3 percent of Kenya’s GDP and just above 1 percent of the country’s export share, employing an estimated 14,000 people.<sup>43</sup> Despite its relatively small size, since 2005 Kenya’s leather industry has grown more than fivefold to become the second-largest exporter of semi-processed hides and the largest producer

38. Ponte et al., ‘Introduction’.

39. Lall and Pietrobelli, ‘National technology systems in sub-Saharan Africa’; Xavier Cirera and William F. Maloney, *The Innovation paradox: Developing-country capabilities and the unrealized promise of technological catch-up* (The World Bank, Washington, DC, 2017); Paulo N. Figueiredo and Janaina Piana, ‘Innovative capability building and learning linkages in knowledge-intensive service SMEs in Brazil’s mining industry’, *Resources Policy* 58, 4 (2018), pp. 21–33.

40. De Marchi et al., ‘Learning and innovation opportunities’.

41. Peter Knorringa, ‘Agra: An old cluster facing the new competition’, *World Development* 27, 9 (1999), pp. 1587–1604.

42. World Bank, ‘Kenya leather industry’, p. iii.

43. Kenya National Bureau of Statistics, *Kenya facts and figures* (Nairobi, Kenya, 2017).

of leather goods (excluding footwear) in the COMESA region.<sup>44</sup> This growth has been spearheaded by a number of government interventions that followed the inclusion of the leather industry in the country's Big Four Agenda Manufacturing Plan and Vision 2030 as a 'sunrise sector' for the country's industrialization strategy. Such strategy remains central to Kenya government's long-term vision to become an industrialized middle-income country by 2030.<sup>45</sup>

In this article, we focus on the most downstream stage of the leather value chain: manufacturing. First, the potential gains from the manufacturing of leather products are enormous if one considers that the country can barely fulfil 15 percent of its internal demand.<sup>46</sup> Shedding light on the dynamics underpinning TCs and upgrading in this sector is therefore critical for supporting the government's effort under Vision 2030. Second, even though progress has been made, there has been a lot of discontinuity across the two main sub-sectors dominating the industry: (i) leather footwear and (ii) leather handbags.<sup>47</sup> According to a World Bank report,<sup>48</sup> whilst footwear has a longer tradition in the country, the handbag sector (which includes travelware, wallets, and other small leather items) has developed a competitive advantage over footwear, with more prospects for sustainable growth. Overall, handbag firms face lower regional competition regionally, feature higher participation in global markets,<sup>49</sup> and attract better prices and profit margins.

As highlighted in the government's Leather Action Plan: '[c]ontrary to the varied differences among leather footwear's competitive advantages, many leather bags produced in Kenya are considered high quality and high-end, and they naturally receive higher prices in the market'.<sup>50</sup> This is a surprising outcome, and one that deserves further attention if we consider that Kenya's leather manufacturing output has been traditionally constrained by 'poor quality of hides and skins, low quality of raw products in tanneries, [...] high import tariffs and dependence on old technology'.<sup>51</sup>

### *Methodology*

The article presents a comparative analysis of Kenyan leather footwear and handbag producers. It draws on semi-structured interviews with 30 and

44. Mwinyihija, 'A prognosis of the leather sector in Kenya'.

45. Government of Kenya, 'Transforming Kenya', Krishnan et al., 'Integrating Kenya's small firms'.

46. Mwinyihija and Quisenberry, 'Leather sector in Africa'; World Bank, 'Kenya leather industry'.

47. Mwinyihija, 'A prognosis of the leather sector in Kenya'.

48. World Bank, 'Kenya leather industry', p. 10.

49. By weighting firms' export shares according to their monthly production rate (Table A1, column 10, Appendix), it can be inferred that about 25–30 percent of the handbag output is exported vis-à-vis less than 2 percent for footwear.

50. World Bank, 'Kenya leather industry', p. 10.

51. Krishnan et al., 'Integrating Kenya's small firms', p. 9.

35 footwear and handbag firms, respectively. A total of 67 respondents were identified from official lists provided by the Kenya Revenue Authority, the Kenya Footwear Manufacturer Association (KFMA), and the Leather Articles Entrepreneurs Association (LAEA) in 2016. Using these combined lists, we contacted all firms, achieving a response rate of 82 percent (55 firms). The analysis is therefore representative of formally registered businesses across the two industries.

The analysis is further complemented with a non-representative sample of 10 informal (unregistered) footwear producers. This is because, despite not being included in GVCs, a critical share of Kenya's footwear production takes place in informal hubs.<sup>52</sup> Informal businesses were randomly targeted by the authors across the two largest informal leather hubs—the Kariokor market in Nairobi (seven respondents) and the Jamhuri market in Thika (three respondents).

Interviews were conducted by the authors between June and November 2016 with managers at each firm. [Table A1 \(Appendix\)](#) provides further information on the interviewed firms, including size, sector, export share, and manager's education and nationality. Drawing on the Kenya Population and Housing Census and in line with previous studies on Kenya's industrialization,<sup>53</sup> we distinguish between Kenyans of Kenyan descent (i.e. Kenyans), Kenyans of Asian descent (i.e. Kenyan Asians), and Kenyans of European descent (i.e. Kenyan Europeans) to reflect respondents' identification during the interviews. Additional key-informant interviews were conducted with representatives of the Kenya Leather Development Council, KFMA, and LAEA. Respondents' names have been anonymized following the structure presented in [Table A1 \(Appendix\)](#).

### *Footwear manufacturing: public governance and the origins of TCs*

The Kenyan leather footwear industry emerged in the early colonial days. Upon independence, the government embraced a regime of IS aimed at harnessing local firms, easing the balance of payment pressures and increasing productivity through public support.<sup>54</sup> In 1974, with the Export Compensation Manufacturing Act and the introduction of a 100-percent duty on the importation of leather, a ban on the export of intermediate inputs, and a 22-percent export compensation scheme, the footwear

52. World Bank, 'Kenya leather industry', p. 15.

53. Kenya National Bureau of Statistics, '2019 Kenya Population and Housing Census. Volume IV: Distribution of population by socio-economic characteristics' (Government of Kenya, Nairobi, 2020), p. 424; Ngui et al., 'Kenya's industrial development'; Matthew Tyce, 'The politics of industrial policy'.

54. Jacob Chege, Dianah Ngui and Peter Kimuyu, 'Scoping paper on Kenyan manufacturing', (Working Paper 25, Kenya Institute for Public Policy Research and Analysis, 2015).

industry took off. At this time, major producers such as Tiger-Shoes (1974), United-Footwear (1978), C&P (1981), and Sana and MacQuin (1982) were founded and reached the apex of their respective business activities.<sup>55</sup>

Kenya's manufacturing output grew during the 1970s and 1980s; however, such growth was disproportionately driven by the protected domestic market. It is estimated that between 1976 and 1983, 64 percent of Kenya's industrial growth was the consequence of IS policies, 41 percent due to increasing domestic demand, and minus 5 percent from decreasing exports.<sup>56</sup> However, the launch of the liberalization process in the early 1990s coincided with a dramatic drop in local manufacturing as firms struggled to deal with foreign competition.<sup>57</sup> Moreover, despite promoting national manufacturing, the IS regime was biased towards large companies. A number of public bodies were created to provide the latter with financial support, training facilities, and subsidized access to quality inputs: for the footwear and tanning sectors, these included the Kenya Industrial Estate Programme (1967), the Kenya Industrial Training Institute (KITI) (1965), and the Kenya Industrial Research and Development Institute (KIRDI) (1979).

The widespread informalization of the footwear industry coincided with the government's decision to remove price controls, foreign exchange licensing, and trade tariffs following the country's admission into the World Trade Organization. Market liberalization and low purchasing power allowed the second-hand market to prosper and outperform most local producers, triggering a retreat of the formal sector. According to KFMA,<sup>58</sup> between 1990 and 2000, over 100 formal shoemakers shut down. Contemporaneously, informal footwear hubs such as Kariokor in Nairobi and Jamhuri Market in Thika emerged. As suggested by Ftw-25, who is a member of the Kariokor Trader Association, the Kariokor market has grown as an informal production hub over the last two decades: 'In Kariokor, during the 1980s and 1990s, we were not making shoes. Around 25 years ago, Kariokor started producing shoes. What happened is that many people lost their jobs... They looked for a way to keep making what they knew best and moved here: that is how Kariokor started specialising in shoes...'.<sup>59</sup> KFMA estimates that, as of 2016, there were over 300 footwear producers in the country, the vast majority of which operated in the informal economy, with fewer than 25 factories being formally registered.<sup>60</sup>

55. Ngui et al., 'Kenya's industrial development'.

56. World Bank, 'Kenya: Industrial sector policies for investment and export growth: Summary report' (Report No. 6711-KE Vol.1, 1987).

57. Nathan N. Gitonga, 'The evolution of Kenya's trade policy', *Indian Journal of Economics and Development* 3, 1 (2015), pp. 120–126.

58. Interview, KFMA, Simon Nganga, Nairobi, June 2016.

59. Interview, Ftw-25, Nairobi, Kenya, August 2016.

60. Interview, KFMA, Simon Nganga, Nairobi, Kenya, June 2016.

The expansion of informal hubs in Kenya's footwear industry has been characterized by an inflow of workers originally employed at formal companies that had either closed or had significantly restructured their businesses upon market liberalization.<sup>61</sup> Most of these workers did not have the necessary 'investment capabilities' to set up a new business and, instead, transferred their 'production capabilities', largely acquired through vocational training (provided by KITI and KIRDI) and employment in the formal sector, to informal hubs.

Footwear firms' TCs have been therefore significantly shaped and impacted by the government's industrial policy during the IS period. A total of 80 percent of the interviewed footwear managers were trained during this period (or by workers previously trained at the time) largely through government-sponsored vocational training programmes at KITI and KIRDI.<sup>62</sup> Yet, liberalization led to budgetary cuts on extension services, which crippled these public bodies.<sup>63</sup> In this context, the TCs of footwear producers have become progressively 'outdated'.<sup>64</sup> Furthermore, as foreign competition was limited under the IS regime, extra-production skills such as marketing and branding failed to develop. This finding is in line with previous research on Kenya's informal sector indicating that a significant share of informal operators active in the 1990s had acquired their skills through previous employment in the formal sector and that such skills were largely limited to 'technical experience'.<sup>65</sup>

### *Handbag manufacturing: public governance and TCs*

Before 2000, the handbag industry was mostly dormant, with few formal actors active in it. Among the pioneering firms were two OBMs: Hnb-20 and Hnb-19. The manager of Hnb-20, a Kenyan European of British descent who trained in Europe, started producing leather waistcoats in 1982, moving into handbags a few years later. Her business has been fairly stable over the years, employing about 15 workers. Similarly, the Hnb-19 manager, also Kenyan European, learned his skills in Europe and the USA before setting up a workshop in Nairobi, which in 2016 hired approximately 20 employees. Over time, Hnb-19 and Hnb-20 have trained

61. Interview, KLDC, Nairobi, George Onyango, November 2016; Easter E. Okello, *Revival of production in the footwear industry in Kenya. The case of Kariokor in Nairobi* (University of Nairobi, unpublished PhD dissertation, 2016).

62. Table A1 (Appendix), column 9, further differentiates between 'learning by doing' in a firm (reported as 'craftmanship') and formal vocational training in leather and leather goods manufacturing at KITI, KIRDI, or other institutes (reported as 'leather').

63. UNIDO, 'Regional Africa leather and footwear industry programme' (*Quality assurance and evaluation branch general management report*, UNIDO, 1997).

64. Interview, KLDC, George Onyango, Nairobi, Kenya, November 2016.

65. Kenneth King, *Jua Kali Kenya 1970–95: Change and development in an informal economy* (James Currey, London, 1995), Chapter 3.

several specialized artisans, most of whom are now working in various local workshops and firms, including two who started their own handbag workshops.<sup>66</sup>

Between 2000 and 2016, through a combination of design and handcrafting skills stemming from existent workshops and new fashion institutes, several new actors entered the handbag industry. As of 2016, between Nairobi and Mombasa alone, there were at least 40 formal manufacturers. Whilst most of these are small workshops with 5 to 10 workers, there are also some established brands such as Hnb-29, Hnb-25, and Hnb-34, permanently employing between 40 and 100 workers.

Importantly, the leather handbag industry did not develop as an export-driven sector, neither during its inception phase in the early 2000s nor, more recently, as new workshops emerged across the country. Our data suggest that not only was the vast majority of the sector's output sold domestically but also that most exporters first established themselves domestically. In fact, of 24 exporting firms interviewed, only five exported more than 50 percent of their production in 2016, with most of these having exported fairly recently relative to their foundation year (Table A1, column 3, Appendix).

Furthermore, Kenya's handbag participation in GVCs differs significantly from the well-known cut, make, and trim (CMT) models that characterize the leather and apparel industries in other developing countries.<sup>67</sup> Of 24 interviewed handbag exporters, 20 were operating as OBMs and only 4 were producing as subcontractors for third-party brands. In 2016, among managers of firms operating in GVCs, all but one stated that they could comfortably meet the quality, consistency, and price demand of export markets. Moreover, all respondents expressed their intention to maintain or increase their export share in the following years. Whilst insertion in GVCs may have represented a contingent choice vis-à-vis those firms' initial strategy to serve the local market, once they entered GVCs, most handbag managers felt they had the TCs to thrive.

Importantly, the origins of TCs among handbag firms are rooted in the intertwining public governance and firm-specific assets. These comprise (i) access to foreign knowledge before (rather than after) joining GVCs and (ii) interaction with local institutes for design and fashion studies. We analyse these in turn.

First, pioneering handbag workshops were all managed by Kenyan Asians and Kenyan Europeans with formal international training and experience. Of 35 interviewed handbag managers, 4 were owned by

66. Hnb-5 and Hnb-11 (Appendix).

67. Vincent Hardy and Jostein Hauge, 'Labour challenges in Ethiopia's textile and leather industries: No voice, no loyalty, no exit?' *African Affairs* 118, 473 (2019), pp. 712–736.



Kenyan Europeans, 5 by Kenyan Asians, and 11 by expatriates. The remaining 15 workshops were owned by Kenyans. Importantly, firms managed by Kenyans were started on average 9 years after those owned by expatriates or Kenyan Asians and Europeans (Table A1, column 5, Appendix).

With one exception, all Kenyan Asian, Kenyan European, and expatriate managers were educated and received training abroad, bringing with them TCs that were new to the country (Table A1, columns 8 and 9, Appendix). As stressed by LAEA's chairperson, knowledge inputs from abroad were crucial in kick-starting the handbag industry: 'In the 1990s foreigners started some small leather stores. Some of them moved into shops and workshops and increased production. Kenyan designers got inspired by this work and started following this trend'.<sup>68</sup> This evidence is significantly different from that which has emerged from footwear producers, of whom only four had received formal training abroad.

When it comes to participating in GVCs, a manager's education and professional network are critical factors. A total of 12 out of 15 handbag managers who trained abroad reported that the knowledge they acquired overseas had been decisive in determining the high-quality standards of their product as well as their ability to access export markets. As stressed by Hnb-8,<sup>69</sup> 'When we started the business, almost nobody here could do what we did. People just loved it, and for many, it meant they could finally buy a top-of-the-notch bag made in Kenya! [...] When I showed my product to my contacts in Paris, they could not believe it. I never thought I would do export...And there we are!'

A second important aspect that shaped handbag firms' TCs, especially those managed by local entrepreneurs, was public governance via the local education system. The number of faculties and public institutes providing a diploma in fashion- and design-related subjects has grown significantly in the last two decades. Whilst in the late 1990s, few tertiary education institutes offered a specialization in fashion and design, as of 2016, Kenyatta University and the University of Nairobi offer courses in these subjects, as does the Buruburu Institute of Fine Arts, the Mcensal School of Fashion Design, and many others. Our survey data indicate that in 2016, 80 percent of handbag managers had a degree or diploma in marketing, fashion, design, business management, or other related subjects, compared to less than 15 percent of footwear managers (Table A1, column 9, Appendix). Furthermore, when it comes to artisans employed in handbag workshops, seven firms reported training students as part of short-term internships

68. Interview, LAEA, Beatrice Mwasi, Nairobi, Kenya, October 2016.

69. Interview, Hnb-8, Nairobi, Kenya, October 2016.

conducted in cooperation with the universities listed above. Conversely, in 2016, only one interviewed footwear firm had such arrangements in place.

As reported by LAEA's<sup>70</sup> chairperson, TCs among handbag workers have stemmed from formal university education: 'People entering the bag market are people who studied and graduated from university. They bring in a set of skills and knowledge that did not exist among shoemakers [...]'.

*The perception of public governance by firms: a barrier or an enabler?*

Public governance has critically impacted Kenya's handbag and footwear firms' TCs. Handbag manufacturing mostly emerged post-liberalization. In this period, public governance acted mostly as a barrier to the sector's growth. In particular, by concentrating on upstream export tariffs rather than downstream access to inputs and components, trade regulations have favoured large tanneries over manufacturing SMEs.<sup>71</sup> For example, a 20-percent export tax on the value of raw exports introduced in 2006 and increased to 80 percent in 2012 was driven by the government's decision to encourage local processing in consultation with tanneries. Yet, for handbag manufacturers, this meant that leather became harder (and more expensive) to source: 'If you are so focused on exporting semi-processed, what you cannot export is what you process and sell to me. I asked them [tanneries] to give me the good material, but they say it is for export...'.<sup>72</sup> Hnb-1's statement broadly reflects the opinion of three-quarters of handbag respondents who identified the government intervention as counterproductive: 'If I could import leather from Ethiopia, I would! The problem is the expensive import duty... You always have trouble managing the customs clearance and procedures are a nightmare. I can tell you, the government does not help us as much as those large exporters [tanneries]. In fact, it undermines us'.<sup>73</sup> As of 2016, government measures had not helped handbag manufacturers, who were still experiencing technical difficulties in sourcing leather locally, whilst importing was further complicated by shipment delays and a 25-percent import tariff.

The barriers created by public governance have fuelled a sense of distrust among handbag manufacturers towards public institutions. The general perception is that the government is not interested in supporting SMEs, whilst SMEs, in turn, have no power to influence public governance. As Hnb-30<sup>74</sup> stressed: 'they [the government] do not support anything on a small scale. They think we are a little bit of a joke [...] For where I

70. Interview, LAEA, Beatrice Mwasi, Nairobi, Kenya, October 2016.

71. Government of Kenya, 'Transforming Kenya'.

72. Interview, Hnb-28, Nairobi, Kenya, October 2016.

73. Interview, Hnb-1, Nairobi, Kenya, June 2016.

74. Interview, Hnb-30, Nairobi, Kenya, November 2016.

am right now, I would give zero credit to the government!’ Whilst more research is warranted, our interviews suggest that distrust towards public governance has stimulated rather than hampered the development of TCs among handbag firms. Hnb-26’s words are indicative of a sentiment shared by many managers in the handbag industry independent of their origins and descent: ‘I walked alone on my own legs. I don’t expect anything from the government... They’ve been an obstacle to my business. You’ve got to do it yourself!’<sup>75</sup>

Contrary to handbag producers, footwear manufacturers are still deeply entrenched in the regulatory environment that characterized public governance during the IS period. Trust in public actors is comparatively higher—66 percent of respondents declared that they trusted public actors in relation to trade and industrial policy. Moreover, when it comes to identifying the main challenges to their business, 73 percent of managers in footwear firms are prone to framing imported goods as a major obstacle, compared to less than 12 percent of managers in handbag firms. As reported by the chairperson of KFMA,<sup>76</sup> footwear manufacturers do not envision any long-term future for the industry unless the government intervenes to limit imports as it did during the IS period, ‘With imported shoes we cannot grow. But if they stop importation, then we can manufacture more, sell more, and grow.’

Arguably, footwear firms’ overreliance on IS measures and the lack of new and alternative TCs from outside the firm (and the country) did not provide the same stimulus for economic upgrading as in the handbag industry. At this point, it may be tempting to suggest that the footwear industry has generated different returns vis-à-vis the handbag industry, translating, for instance, into higher social gains for workers and the community. This would be the case if, for example, the footwear sector had created more employment, higher wages, or even improved benefits for the community, such as endowing the population with access to cheap shoes.<sup>77</sup> Nonetheless, previous research has shown that both historically and as of 2019, labour conditions were considerably higher among handbag producers.<sup>78</sup> Moreover, there is evidence to suggest that both during and after the IS period, locally produced leather shoes were less affordable than imported shoes from overseas (including second-hand European and new

75. Interview, Hnb-26, Nairobi, Kenya, October 2016.

76. Interview, KFMA, Simon Nganga, Nairobi, Kenya, June 2016.

77. Stephanie Barrientos, Gary Gereffi, and Arianna Rossi, ‘Economic and social upgrading in global production networks: Developing a framework for analysis’, *International Labour Review* 150, 3 (2011), pp. 319–340.

78. Giovanni Pasquali, ‘Rethinking the governance of labour standards in south–south regional value chains’, *Global Networks* 21, 1 (2021), pp. 170–195.

Asian footwear), thereby suggesting the lack of any immediate benefits to consumers.<sup>79</sup>

*Reflecting on African industrialization opportunities: comparing evidence with the apparel industry*

The comparative analysis and discussion in the previous sections provide important insights as to how public governance impacts firms' TCs, and more broadly, it contributes to the understanding of industrialization opportunities for African countries.

The possibility to compare firms that achieved different TCs within the same country is particularly insightful in this respect, and it further highlights the importance to take a GVC perspective in the understanding of industrialization opportunities.<sup>80</sup> A first element emerging from the comparative analysis is the role of public governance as a 'precursor' of TCs and economic upgrading. In the Kenyan footwear sector, whilst the regime of IS underpinned the development of technical capabilities, most companies collapsed in the aftermath of liberalization with many workers shifting to the informal sector. Conversely, in the handbag sector, the presence of local universities and institutes with targeted curricula provided a conducive environment for the transfer of foreign knowledge and skills to local workers and managers. In this respect, TCs are not to be considered as static; the level of TCs and, as such, economic upgrading change over time, highlighting the importance of understanding how public governance can support the emergence and retention of TCs.

Second, our analysis highlights the 'joint effect' of public governance and firm-specific assets in shaping TCs. In contrast to existing studies that investigate the role of GVCs in supporting local industrialization,<sup>81</sup> we argue that developing GVC linkages is neither a necessary nor a sufficient condition to ensure the development of TCs. Especially in the case of handbag manufacturers, TCs developed from the interaction between public governance and firm assets, including managers' professional networks, education, and expertise. Notably, our evidence suggests the presence of important firm-level heterogeneities in the opportunities to develop TCs, which have been critically influenced by the policy regimes underpinning their emergence. Our conclusions are strengthened by the comparison with another key industrial sector in Kenya whose expansion in the early 2000s led to renewed optimism in the possibilities for industrial policies to support industrialization in Africa: apparel.

79. Okello, 'The case of Kariokor in Nairobi'; World Bank, 'Kenya leather industry'.

80. Pietrobelli and Startiz, 'Upgrading, interactive learning, and innovation'.

81. Gary Gereffi, 'Global value chains in a post-Washington consensus world', *Review of International Political Economy* 21, 1 (2014), pp. 9–37; World Bank, 'Global value chains'.

Like leather, Kenya apparel production thrived during the IS period and collapsed in the aftermath of liberalization as the sector could not sustain the competition of imported garments. As for footwear producers, several large factories shut down or downsized, whilst a large informal sector with hundreds of microenterprises emerged.<sup>82</sup> Trading of second-hand clothing imported from Europe and the USA also flourished, dominating the domestic market up to the present.<sup>83</sup> Despite this trend, through the 2001 African Growth and Opportunity Act (AGOA) granting preferential access to the USA for garments assembled in Kenya and the creation of export promotion zones to attract foreign investors, the government partially succeeded in promoting an export-oriented sector and linking it to GVCs.<sup>84</sup>

Critically, in the apparel sector, GVC linkages have been more relevant than in the leather industry as they upheld the inflow of capitals from Asian investors seeking to benefit from AGOA.<sup>85</sup> Nevertheless, since their inception in the early 2000s, TCs development among apparel firms participating in GVCs has been extremely limited, with most companies still engaging in basic CMT activities. Notably, research has found that both downstream buyers and foreign investors have maintained 'very limited interest in transferring more than manufacturing (assembly) functions' to the country.<sup>86</sup> Unlike handbag producers, therefore, foreign investments in apparel have arguably failed to promote TCs and upgrading. Conversely, they have largely resulted in enclaves with few local and regional linkages, let alone low wages and limited fiscal benefits to the government.<sup>87</sup>

### Conclusion

This article contributes to the GVC literature by providing an empirical analysis of the link between public governance and TCs. In the Kenyan leather industry, industrialization opportunities cannot be understood in

82. Mary N. Kinyanjui and Dorothy McCormick, 'Value chains in small scale garment producers in Nairobi: Challenges in shifting from the old global regimes of import substitution to a more liberalised global regime' (IDS Working Paper No. 536, Institute for Development Studies, 2003).

83. Takahiro Fukunishi, 'Kenya: Stagnation in the liberalized markets', in Takahiro Fukunishi and Tatsufumi Yamagata (eds), *The garment industry in low-income countries* (Palgrave Macmillan, London, 2014), pp. 243–282; Tyce, 'The politics of industrial policy'.

84. Dorothy McCormick, Paul Kamau, and Peter Ligulu, 'Post-multifiber arrangement analysis of the textile and garment sectors in Kenya', *IDS Bulletin* 37, 1 (2006), pp. 81–88.

85. Paul Kamau, *Upgrading and technical efficiency in Kenyan garment firms: Does insertion in global value chains matter?* (University of Nairobi, unpublished PhD dissertation, 2009).

86. Mike Morris, Leonhard Plank, and Cornelia Staritz, 'Regionalism, end markets and ownership matter: Shifting dynamics in the apparel export industry in sub-Saharan Africa', *Environment and Planning A* 48, 7 (2016), pp. 1244–1265 (p. 1252).

87. Nicholas A. Phelps, John C.H. Stillwell, and Roseline Wanjiru, 'Broken chain: Foreign direct investment in the Kenyan clothing and textile industry', *World Development* 37, 2 (2009), pp. 314–325.

isolation from public governance and its impact on firms' TCs origins and evolution of TCs. We, therefore, concur with others in arguing that to facilitate economic upgrading among SMEs in developing countries, 'in-house' efforts to build internal capabilities are more determining factors than linkages with GVCs.<sup>88</sup> We further show how, in this process, public governance critically shapes how firms invest in building TCs and their ability to successfully participate in global markets.

Our study provides key insights for understanding the link between public governance, industrialization, and participation in GVCs for Kenya and other African countries. First, public governance does not simply generate market opportunities, but it changes the distribution of economic benefits by creating 'compulsions' and 'dynamics' that favour the emergence of new productive enterprises in ways that are often difficult to predict.<sup>89</sup> The rise of the handbag sector in Kenya was enabled by market liberalization, which led firms to differentiate production and develop competitive responses to foreign products. Yet, the very same policy triggered downgrading and informalization among footwear firms, where the 'compulsion' to reshape pre-existing TCs did not materialize. We therefore argue that public governance can act as a 'precursor' of TCs and economic upgrading, in that firms develop TCs and upgrade by leveraging their asset-specificities in response to the government's policies.

Second, the demise of Kenya's footwear and Ghana's apparel industries, as well as the recent emergence of Kenya's apparel and handbag sectors, show that public governance can act as both a catalyst and a barrier to industrialization depending on how specific policies interact with (and enact) firms' pre-existing TCs.<sup>90</sup> In line with previous work published in this journal,<sup>91</sup> we therefore highlight the importance for public governance to go beyond attracting foreign investments and creating linkages to GVCs. As the case of Ethiopia's apparel successfully demonstrates,<sup>92</sup> governments need to first understand the specific assets local firms control and enact policies that incentivize and improve their TCs. 'Pockets of efficiency' do not exist as exogenous components of a country's economic environment but reflect instead the evolution of specific TCs in relation to public governance and firm-specific assets. Kenya handbag producers have made significant investments to improve their TCs through partnerships with local universities and institutes of fashion and design. This process

88. De Marchi et al., 'Learning opportunities'.

89. Whitfield et al., *The Politics of African Industrial Policy*, p. 14.

90. Amankwah-Amoah, 'Explaining declining industries'; McCormick et al., 'Post-multifiber arrangement'.

91. Tyce, 'The politics of industrial policy'.

92. Staritz and Whitfield, 'Mapping the technological capabilities'.



has generated knowledge spillovers, which have further increased the number of handbag firms owned by local entrepreneurs. By contrast, the case of Eswatini's and Lesotho's apparel sectors demonstrate that policies aimed at attracting foreign investments to enter GVCs have not been by themselves sufficient to favour the emergence of local firms and entrepreneurship.<sup>93</sup>

Finally, we show that TCs can have a positive impact on local industrialization 'independent' of firms' participation in global markets, thereby suggesting that there are opportunities to be seized for African firms leveraging local markets. Our study finds that the ability of SMEs to access GVCs is the result of a complex interconnection of different factors. Among Kenya's handbag producers, these circumstances were unique and certainly not replicable for footwear producers, who did not enjoy the same international networks and knowledge inflow, and mostly operated in price-driven informal markets with limited scope for economic upgrading. However, under all circumstances, we show that handbag production did not emerge as an export-driven sector and that most of its output is still targeted at the domestic market. Hence, we contend that TCs among SMEs in the global South 'can' be generated within domestic markets before rather than after entering GVCs.<sup>94</sup>

In the Kenyan handbag sector, this process was critically mediated by public governance both as an enabler (via learning linkages with local universities) and a barrier (via regulatory constraints that inadvertently stimulated the development of TCs). This is particularly striking vis-à-vis the Kenyan apparel sector, where participation in GVCs has been dominated by CMT factories that have so far failed to develop new TCs,<sup>95</sup> thereby questioning the effectiveness of this industrialization model in supporting economic development. We would therefore concur that, even in manufacturing industries characterized by high competition and relatively low value added, simply leveraging low labour costs to attract foreign investments and generate linkages with GVCs is not by itself conducive to economic upgrading.<sup>96</sup> As the apparel case exemplifies, further research is nevertheless needed to verify the extent to which public governance can be successfully used to support the formation of TCs once firms have already entered GVCs and are therefore subject to significant competitive pressures.

### *Supplementary material*

Supplementary data are available online at *African Affairs*.

93. Pasquali et al., 'Insights from Southern Africa's apparel sector'.

94. Altenburg et al., 'A decade on'.

95. Kamau, 'Does insertion in global value chains matter?'

96. Neil Coe and Henry W. Yeung, *Global production networks: Theorizing economic development in an interconnected world* (Oxford University Press, Oxford, 2015).

## Appendix

Table A1 Interviewed firms and selected information.

ID	Sector	Year /GVCs/	Workers	Ownership	Export	OBM	Education *	Training abroad	Monthly items
Hnb-1	Handbag	2009 [2014]	18	British	17%	Yes	Fashion *	Yes	90
Hnb-2	Handbag	1988	10	Kenyan Asian	0%	Yes	Marketing *	Yes	110
Hnb-3	Handbag	2000	15	Italian	0%	Yes	Craftmanship	Yes	600
Hnb-4	Handbag	1997 [2013]	17	Kenyan European	5%	Yes	Fashion *	Yes	225
Hnb-5	Handbag	2013	10	Kenyan	0%	No	Business *	No	600
Hnb-6	Handbag	2012 [2015]	7	Kenyan	20%	Yes	Design *	Yes	600
Hnb-7	Handbag	2000 [2010]	10	Kenyan	40%	Yes	Business *	No	150
Hnb-8	Handbag	2001 [2011]	11	French	40%	Yes	Fashion *	Yes	300
Hnb-9	Handbag	2002	12	Kenyan	0%	No	Craftmanship	No	2750
Hnb-10	Handbag	2009 [2009]	50	Italian	100%	No	Business *	Yes	1500
Hnb-11	Handbag	2013 [2016]	5	Kenyan	5%	Yes	Craftmanship	No	560
Hnb-12	Handbag	1994	14	Kenyan Asian	0%	No	Leather	Yes	600
Hnb-13	Handbag	1996 [2009]	7	American	10%	Yes	Engineering *	Yes	7.5
Hnb-14	Handbag	2016	2	Kenyan	0%	Yes	Fashion *	No	20
Hnb-15	Handbag	2016	20	Kenyan Asian	0%	Yes	Business *	Yes	3750
Hnb-16	Handbag	2006 [2013]	21	Kenyan	40%	Yes	Craftmanship	No	300
Hnb-17	Handbag	2013	3	Kenyan	0%	Yes	Design *	No	350
Hnb-18	Handbag	1984 [2002]	37	Kenyan Asian	20%	No	Engineering *	Yes	900
Hnb-19	Handbag	1985 [1995]	20	Kenyan European	30%	No	Leather	Yes	600
Hnb-20	Handbag	1982 [2005]	15	Kenyan European	70%	Yes	Leather	Yes	450
Hnb-21	Handbag	2014	7	French	0%	Yes	Design *	Yes	125
Hnb-22	Handbag	2014 [2014]	6	British	85%	Yes	Marketing *	Yes	150
Hnb-23	Handbag	2006 [2012]	6	Kenyan European	30%	Yes	Teaching *	Yes	90
Hnb-24	Handbag	2016 [2016]	5	Kenyan	40%	Yes	Fashion *	No	37.5
Hnb-25	Handbag	2004 [2010]	45	British	15%	Yes	Fashion *	Yes	900

(continued)

Table A1 (Continued)

ID	Sector	Year [GVCs]	Workers	Ownership	Export	OBM	Education*	Training abroad	Monthly items
Hnb-26	Handbag	2001 [2001]	30	American	90%	No	Fashion*	Yes	900
Hnb-27	Handbag	1988 [2010]	250	Kenyan Asian	15%	Yes	Design*	Yes	N.A.
Hnb-28	Handbag	2006 [2009]	6	Kenyan	40%	Yes	Design*	Yes	600
Hnb-29	Handbag	2002 [2015]	80	British	10%	Yes	Marketing*	Yes	1100
Hnb-30	Handbag	2012 [2014]	14	Kenyan	25%	Yes	Business*	No	375
Hnb-31	Handbag	2013	10	Kenyan	0%	Yes	Psychology*	No	85
Hnb-32	Handbag	2013 [2016]	9	Kenyan	16%	Yes	Marketing*	No	175
Hnb-33	Handbag	2010 [2015]	8	Kenyan	10%	Yes	Leather	No	250
Hnb-34	Handbag	2007 [2013]	87	British	80%	Yes	Teaching*	Yes	600
Hnb-35	Handbag	2016	2	Kenyan	0%	N.A.	Fashion*	No	50
Ftw-1	Footwear	1990	8	Kenyan	0%	Yes	Craftmanship	No	750
Ftw-2	Footwear	1994	1	Kenyan	0%	Yes	Engineering*	Yes	275
Ftw-3	Footwear	1987 [1995]	7	Kenyan	10%	Yes	Business*	No	6000
Ftw-4	Footwear	2005	15	Kenyan	0%	No	Craftmanship	No	350
Ftw-5	Footwear	2014	40	Kenyan Asian	0%	No	Craftmanship	No	1800
Ftw-6	Footwear	1989	5	Kenyan	0%	Yes	Leather	No	340
Ftw-7	Footwear	1992	9	Kenyan	0%	Yes	Leather	Yes	800
Ftw-8	Footwear	1995	14	Kenyan	0%	No	Leather	No	600
Ftw-9	Footwear	2010	7	Kenyan	0%	No	Leather	No	625
Ftw-10	Footwear	1982 [2005]	22	Kenyan Asian	10%	Yes	Craftmanship*	No	850
Ftw-11	Footwear	2008	12	Kenyan	0%	No	Engineering*	Yes	2000
Ftw-12	Footwear	2004	11	Kenyan	0%	Yes	Leather	No	1000
Ftw-13	Footwear	2004	15	Kenyan Asian	0%	No	Craftmanship	No	650
Ftw-14	Footwear	1989	3	Kenyan	0%	Yes	Leather	Yes	75
Ftw-15	Footwear	1990 [2013]	17	Kenyan	30%	No	Business*	No	1500

(continued)

Table A1 (Continued)

ID	Sector	Year [GVCs]	Workers	Ownership	Export	OBM	Education *	Training abroad	Monthly items
Ftw-16	Footwear	1996	3	Kenyan	0%	Yes	Craftmanship	No	300
Ftw-17	Footwear	1992	2	Kenyan	0%	Yes	Leather	No	375
Ftw-18	Footwear	2007	9	Kenyan	0%	Yes	Craftmanship	No	565
Ftw-19	Footwear	1993	3	Kenyan	0%	No	Craftmanship	No	475
Ftw-20	Footwear	2006	7	Kenyan	0%	Yes	Craftmanship	No	400
Ftw-21	Footwear	2009	5	Kenyan	0%	Yes	Craftmanship	No	1750
Ftw-22	Footwear	2000	6	Kenyan	0%	No	Craftmanship	No	1250
Ftw-23	Footwear	2011	2	Kenyan	0%	No	Craftmanship	No	900
Ftw-24	Footwear	2005	7	Kenyan	0%	No	Craftmanship	No	1750
Ftw-25	Footwear	2001	8	Kenyan	0%	N.A.	Craftmanship	No	450
Ftw-26	Footwear	2005	3	Kenyan	0%	No	Craftmanship	No	750
Ftw-27	Footwear	1996	5	Kenyan	0%	Yes	Craftmanship	No	2500
Ftw-28	Footwear	1995	3	Kenyan	0%	Yes	Craftmanship	No	450
Ftw-29	Footwear	1979	100	Kenyan Asian	0%	No	Leather	No	N.A.
Ftw-30	Footwear	1993	18	Kenyan	0%	No	Leather	Yes	450

Notes: Column 3, year of foundation, further reports in brackets the year in which the firm started exporting. Column 8, education, further distinguishes between 'craftmanship' (i.e. learning by doing from employment in a firm) and 'leather' (i.e. formal vocational training at KITI, KIRDI, or other institutes); (\*) is used to indicate completion of tertiary university education. Column 10, monthly items, reports an average across high- and low-season sales.