

**THE ROLE OF LESOTHO'S TEXTILE INDUSTRY IN  
PROMOTING LOCAL ECONOMIC DEVELOPMENT: THE  
THETSANE INDUSTRIAL AREA**

**By**

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## **ABSTRACT**

This case study explores the role that the textile industry plays in the economic development of Lesotho. The study focuses on the Thetsane textile industry in the south of Maseru. In particular, it explores the contribution of this industry to job creation and poverty reduction.

As the industrial garment industry of Lesotho represents the only economic activity showing significant and consistent growth in terms of employment, foreign direct investment and exports, it is already making an important contribution to poverty reduction. There are, however, a number of significant challenges to the industry that if successfully addressed could unleash the existing potential for further growth in the sector and make it an even greater contributor to economic growth, poverty reduction and job creation.

For Lesotho to take full advantage of African Growth and Opportunity Act (AGOA), it needs to develop and service industrial land and enhance its water supply to industry as a matter of urgency. From a competitive point of view Lesotho has much to offer at the moment. The peaceful conduct of the recent elections with the resultant aura of political stability is a key foundation for economic growth and foreign investment. The regulatory environment is manageable, wages are low and there is an adequate labor supply. The challenge lies in the future, with trends towards the lowering of global tariff barriers and the expiry of the Multi Fibre Agreement in 2005, which will remove quota restrictions on garment imports to the USA.

Lesotho could effectively market itself as a destination of choice for garment purchasers and new investors. It is also of critical importance that the wider community within Lesotho understands the contribution that the garment industry is making towards poverty reduction and job opportunities.

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**This study is dedicated to my late brother Mr. Mpho Clement Hlabana and also my late father Mr. Muso Albert Hlabana. May their souls rest in peace.**

## **DECLARATION**

I declare that this dissertation in partial fulfillment of the qualification Masters degree in Geography at the University of the Free State is my own, independent work that I have not previously submitted for a qualification at another university or faculty.

I furthermore cede copyright of the dissertation in favour of the University of the Free State.

Malitaba Magdalene Hlabana

Bloemfontein, 2007

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## **LIST OF ACRONYMS**

|        |   |
|--------|---|
| ACP    | African, Caribbean and Pacific            |
| AGOA   | African Growth and Opportunity Act        |
| CMT    | Cut, Make and Trim                        |
| DTI    | Department of Trade and Industry          |
| EBA    | Everything But Arms                       |
| EEC    | European Economic Countries               |
| EU     | European Union                            |
| FDI    | Foreign Direct Investment                 |
| GATT   | General Agreement on Tariffs and Trade    |
| GoL    | Government of Lesotho                     |
| LDC    | Least Developed Countries                 |
| LECAWE | Lesotho Clothing and Allied Workers Union |
| LEC    | Lesotho Electricity Corporation           |
| LGC    | Lesotho Garment Center                    |
| LNDC   | Lesotho National Development Center       |
| MFA    | Multi-fibre Agreement                     |
| NGO    | Non Governmental Organization             |
| RSA    | Republic of South Africa                  |
| SADC   | Southern African Development Conference   |
| USA    | United States of America                  |
| TCL    | TeleCom Lesotho                           |
| WASA   | Water and Sewerage Authority              |
| WTO    | World Trade Organisation                  |
| PRSP   | Poverty Reduction Strategic Plan          |

# CHAPTER ONE

## INTRODUCTION

### 1.1 General introduction

On a number of occasions it has been suggested that Lesotho is the 'denim capital of Africa'. Indeed, the clothing and textile sector has always been the best performer in Lesotho's industrial portfolio. In large part this is due to the fact that this industry is relatively easy to set up, very labour intensive and the unskilled can easily be trained within a short space of time. Moreover, the industry has proven to have good export potential and through expanding export growth, can create more employment opportunities at a lower cost than many other manufacturing industries. Not surprisingly then, the textile and clothing trade is of major importance to developing countries, not least the poorest among them, such as Lesotho.

In the developing world context, the promotion of the textile and clothing industry has increasingly become part of broader development planning frameworks, particularly economic development (Statistics South Africa, 2000). Over the past two to three decades issues of economic development have come to dominate urban politics and planning in many cities across the globe with local governments in particular increasingly adopting entrepreneurial development strategies which form a key element of this development strategy (Goldsworthy, 1998; Jordan, 1995). More recently, local economic development (LED) strategies have also started to receive increased prominence in developing countries' economic planning frameworks (Mitchell-Weaver and Manning, 1991; Rondinelli, 1990; Fergusen, 1992; Linfield 1993; Zaaizer and Sara, 1993; Ndlovu 1994).

At its most general level local economic development is described as a 'process in which local government and /or community-based groups manage their existing resources and enter into new partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity' (Zaaizer and Sara, 1993:129). While

local economic development can be adopted by a range of national, regional or local institutions, it is usually deployed within the context of an urban development strategy or policy (Stone and Sanders, 1997). More specifically, definitions of local economic development in this context generally incorporate a number of core elements. Firstly, they include identifiable economic goals, usually including job creation, wealth creation and poverty reduction. Secondly, they attempt to change and influence investment patterns at international, national and/or internal levels. Thirdly, a driving group within the locality generally identifies a need to focus on the economic position of the area. Fourthly, an identifiable administrative vehicle carries it forward, and, finally, a pro-growth group within the locality usually conceptualises “the local” as part of a competitive space economy and identifies a need to influence that position (Sapsford, 1994: 101).

Similar to experiences elsewhere, local economic development in Lesotho falls under the auspices of local government. The main task of local government in this country is stated to be:

- (1) the promotion of an entrepreneurial culture especially for men, women, youth and the disabled in order to expand employment opportunities and promote self-employment;
- (2) the development of a strong industrial base using locally available natural resources;
- (3) the development of an effective infrastructure of roads, telecommunications, electricity and water supply for attracting investment;
- (4) the development of a strong small, medium and micro enterprise (SMME) and informal sector;
- (5) the acquisition of land for experimentation with commercialised agriculture;
- (6) the development of financial institutions that offer high standards of service comparable to the best in the world;
- (7) and finally, the development of Lesotho’s tourism potential within the SADC context (Lesotho Review, 2001:19).

Indeed, the functions the local government has to fulfil in Lesotho closely resemble key features of local economic development seen internationally.

Within the context of local economic development as a tool to promote development in Lesotho, and in particular urban areas, the Lesotho national government has accorded the textile and clothing industry a central position in the attainment of this goal. To a large extent, the support for this economic sector is the fact that a range of economic linkages are associated with the development of the textile and clothing industry. These include the manufacturing of fabrics, such as cotton and nylon, the manufacturing of finished clothing and the sale of clothing (Statistics South Africa, 2000). Moreover, the development of particular aspects of the industry necessitates the construction of buildings housing these enterprises, in addition to road infrastructure, rail links, water provision, sanitation and electricity supply to sustain these factories. Moreover, there are implications in terms of employment creation with a range of backward and forward linkages into the local economy, as well as the region. In addition to these factors, Lesotho has an abundance of labour, as well as access to the critical markets of the United States of America and Europe that has enticed investors, particularly from the Far East, to set up operations in the region (Lesotho Review, 2001).

## **1.2 Study aims**

In the light of the already established importance to the clothing and textile industry in Lesotho, in addition to the high expectations held out for its further development, the lack of available research on the clothing manufacturing industry in Lesotho is a cause for concern. Within this void of critical reflection, this research aims to come to a deeper understanding of the clothing and textile industry in Lesotho's industrial hub and capital city - Maseru. There are a number of lines of enquiry that may be identified as forming the core concerns of this research.

- The first aim of the investigation is to understand the broader context within which textile and clothing manufacturing, as a local economic development focus, functions within the global economy.
- The second line of enquiry focuses on the importance of this industry to Lesotho in terms of income to the country and the employment generated through textile and clothing production.
- The third aim is to come to a deeper understanding of how the textile industry developed in Lesotho as a whole and in particular what the spatial distribution and temporal development of this industry has been.
- The fourth focus is to understand the structure of this industry cluster in Maseru specifically, with a particular emphasis on the types of employment engendered in the textile and clothing enterprises.
- The fifth aim is to relate textile and clothing industry development, in terms of the factories themselves and those finding employment therein, to the attainment of broader local economic development in Maseru.

The overall focus on the clothing and textile manufacturing industry is framed by the question whether all the activities associated with it contribute towards the development of Lesotho generally, and Maseru in particular.

### **1.3 The study area**

According to Visser (1996), the definition of a spatial framework in which research is conducted entails two aspects, namely the demarcation of a study area and the identification of a geographic scale of investigation, this refers to the sub-division of the general study area. The exploration of Lesotho's textile and clothing industry has been placed within the spatial framework of Maseru's Thetsane industrial area. The Thetsane Industrial area is located South of Maseru, the capital of Lesotho. Thetsane itself is very close to the Caledon River and is along Mandela Road leading to the Mohale Highlands

Water Projects. Various services and industries have contributed towards the development of this Industrial Estate. The establishment of this estate, this investigation aims to argue, contributes significantly to the economy of both the residents of Maseru and the national economy of Lesotho as a whole.

The estate covers the total area of 161717.73 square metres. Thetsane industrial area is comprised of fourteen (14) factories, which started operating in the mid1990s. There are major road networks in this area. There are plenty of services in the Thetsane industrial area such as a health clinic, mini supermarkets, small shops, police station, schools, telephone booths, restaurants, bars etc. Figure 1 shows Thetsane industrial area in relation to Maseru.

There are 29 textile manufacturers in Maseru district of which 14 industries are located at Thetsane area and these factories have a large number of people working in this area. About 10 000 people work in the textile industries in the Thetsane industrial area. This sector has played a major role in employing large numbers of Basotho and has contributed significantly to poverty reduction in Maseru. Again people working in this sector contribute significantly in improving the economy of the country by spending their money in the country because Maseru is the largest city in Lesotho, and all the services are located in Maseru. As a result, this improves the economic development of Lesotho. Comparatively, Maseru has more textile industries than any other area in Lesotho. The reason for this is that it is a capital city and is located near the border and all services are available such as electricity, water etc.

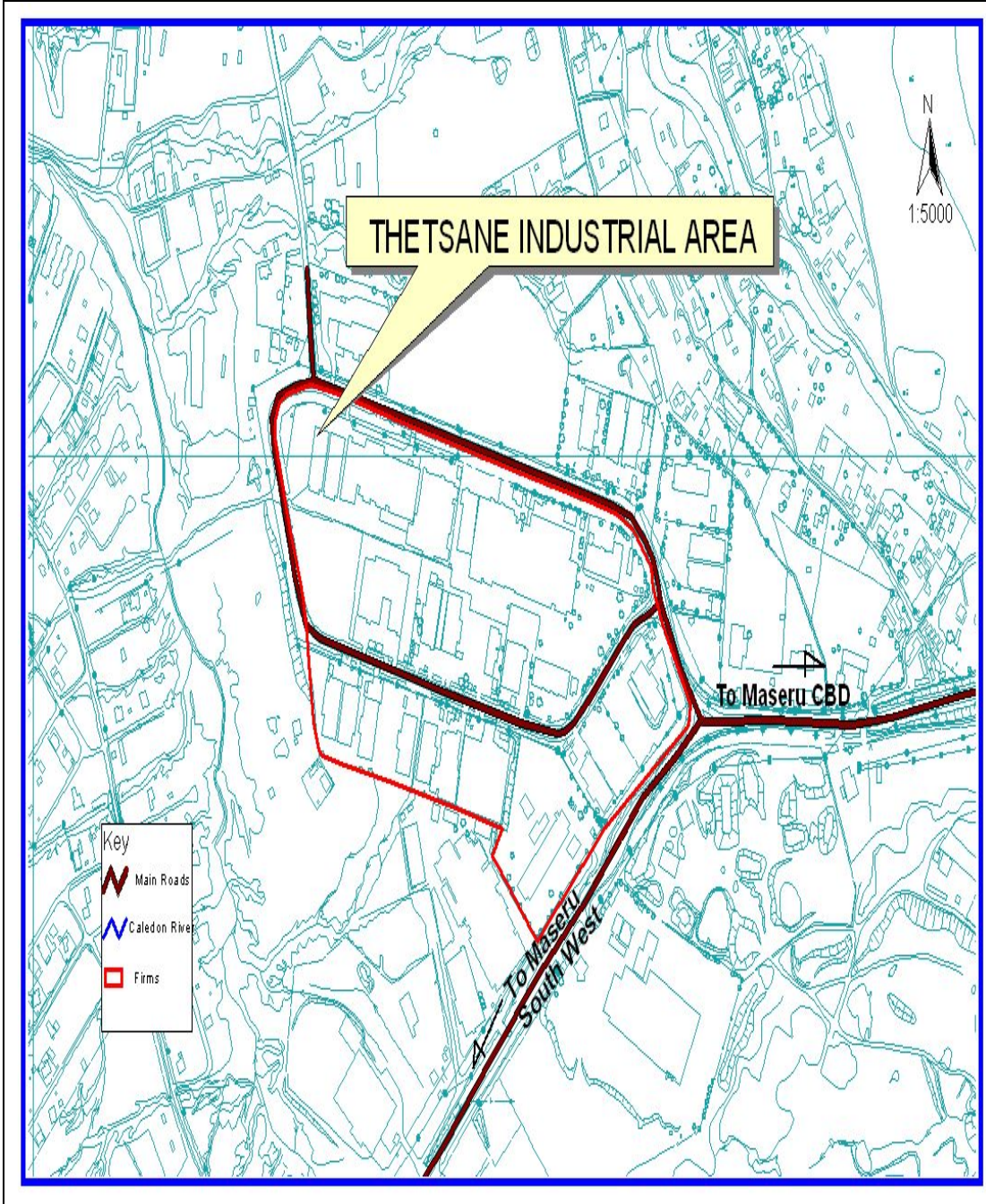


Figure 1 Thetsane industrial area

Source:(LHDA GIS Department)



#### **1.4 Data collection and methodology**

Information was drawn from both primary and secondary sources, the latter being employed mainly to provide the necessary conceptual background and a better understanding of the linkages between local economic development and the textile and clothing industry.

Researchers present their research results in several written forms, including scholarly journal articles, books, dissertations, papers presented at the meetings of professional societies, as well as government documents and policy reports (Neuman, 2000). Information presented in this research thus firstly, comes from a review of the relevant academic literature. The literature consulted was focused on local economic development, within an international, regional and local context. Secondly, academic literature on the textile industry, once again within the international, regional as well as Lesotho context, was consulted. Use was made of journals, published books, dissertations and official documents. These provided an invaluable source on concepts and theories, both on local economic development, as well as the clothing and textile industry. Particular emphasis was placed on the textile industry and its opportunities in world markets due to African Growth and Opportunity Act (AGOA). Further information was gathered from commercial media accounts, such as newspapers, magazines and reports that are related to the research. Although these are not true components of academic research, relevant and recent information was gathered from these sources. Information made available on university, research institute and government agency, web pages on the Internet, was included. On the whole, the literature review serves to contextualize this research and demonstrate its relevance within current knowledge.

The nature of this research necessitated the employment of a range of methodological approaches to satisfy the information needs of the empirical part of this investigation. For the purposes of this investigation, however, there was relatively heavy reliance on quantitative measurement. The reasons for this choice are found in the fact that there is relatively little descriptive data concerning the Lesotho textile industry, and that this

research aims to provide a starting point to more detailed investigation in future. This does not, however, preclude the use of qualitative methods.

Given the nature of the topic under investigation and the need to analyze evolving events within this area, as well as the broader economic and social events in this area, research in the field was undertaken over a period of a year. The field research involved several visits to the study area. At the start of the research, an introductory visit was made to allow the researcher to observe and survey the area and to consider different means of gathering information. Contact with both the textile and clothing employers and employees was established to secure participation in the research. During the second visit the delivery of questionnaires and face-to-face interviews with textile and clothing facility owners and managers, willing to participate in the study, took place. This questionnaire consisted of both closed- and open-ended questions to the employees (see Appendix 1). A second questionnaire focused on employers (see Appendix 2) was distributed over an extended period of time. These interviews took place through visits to factory workers' homes over weekends when they were not on duty and they were free to talk. Only face-to-face interviews were conducted. Language and access was not a problem as the researcher lives in the area where many of these workers stay and Sesotho is the researcher's mother tongue. In terms of the questionnaire, open, as well as close-ended questions were asked.

A wide variety of topics formed the focus of this research, but the two main themes were the textile industry and its contribution to local economic development. For the employer questionnaire the focus included an analysis of the economic and social impacts of Lesotho's textile industry in promoting local economic development through the spending behaviour of the industry, as well as rates and taxes. For the industry employees the focus was on income, training, household expenditure and their experience of working in the Thetsane textile and clothing industry. In Total, 120 interviews were conducted with workers in the Thetsane industrial area.

## 1.5 Data analysis and findings

Data was collected and analyzed using descriptive statistics. The variables that were measured were:

- Biographical data,
- Employees income, expenditure and level of education,
- Contribution of textile industries in lowering unemployment rate in Lesotho,
- Textile industries as contributing factor in the improvement of economic development and poverty alleviation in Lesotho,
- Attitude of the employers towards employees; lastly
- Industrial relations, perception and public relations.

The questionnaire was divided into four sections. Section one dealt with biographical data, section two dealt with family income, expenditure and level of education, section three dealt with contributing factors for improving job opportunities and in alleviating poverty in Lesotho. The last section dealt with employers' attitude to employees. These variables focused on research questions which were:

1. Does biographical data (i.e.) age, sex, family income and expenditure, and level of income have any association with individuals working in the industries?
2. Do textile industries contribute to economic development and poverty alleviation in Lesotho?
3. Do the textile industries contribute in the lowering of the unemployment rate in Lesotho?
4. What attitude do employers convey to the employees?
5. Are there constraints and opportunities at work for employees?
6. How do employers perceive employees?
7. What kind of relations do employers have towards the employees?

## **1.6 Research design**

“A research design is a result of a series of decisions we make that emerge from our knowledge of the academic literature, the research questions we want to ask, our conceptual framework and our knowledge of the advantages and disadvantages of different techniques” (Valentine, 2001: 41). A research design is, therefore, the programme that guides the investigator in the process of collecting, analyzing and interpreting observations. The research design in this study encompassed the following considerations.

A schematic research framework (Table1.1) based on Visser (1996) was used to illustrate the chapter sequence and topic development. Chapter One provides the general introduction to what this study sets out to achieve. The chapter gives an outline of the study aims, the area in which the research is based and the technical background of the study. Chapter Two provides a review of textile and clothing industry in Lesotho outlining the industrialization of the sector in Africa and in SADC region. It also provides information about AGOA, its stipulation, and benefits to both Africa and the United States (US).

Chapter Three goes deeper into Lesotho’s economic development and how the country fits into international terms of trade. Chapter Four deals with an overview of the clothing and textile industries in Lesotho. It looks at the empirical part of the study. Chapter Five revisits the research objectives and aims of the thesis and outlines a number of recommendations.

| <b>The role of Lesotho's textile industry in promoting economic development: The case study of Thetsane industrial area, Maseru.</b> |   |   |
|--|---|---|
| <b>Chapter One:</b><br>Study aims and research procedures  | General introduction                                  | <ul style="list-style-type: none"> <li>• Problem Formation</li> <li>• Study area</li> <li>• Data collection</li> </ul>  |
| <b>Chapter Two:</b><br>Lesotho Economic development and the clothing and textile industry  | Background and industrialization in Africa in general | <ul style="list-style-type: none"> <li>• Introduction</li> <li>• Industrialization of Africa's textile and clothing industry</li> <li>• International terms of trade and Lesotho</li> <li>• Clothing and textile industry in international context</li> </ul>   |
| <b>Chapter Three:</b><br>Lesotho clothing and textile industry   |   | <ul style="list-style-type: none"> <li>• Structure of the textile and clothing industry in Lesotho and its spatial distribution</li> <li>• Contribution of Government Ministries to textile and clothing industry</li> <li>• The industry's role in poverty reduction</li> <li>• USA and AGOA</li> <li>• Markets</li> </ul> |
| <b>Chapter Four:</b><br>The structure of the clothing and textile industry in the Thetsane area                                      |   | <ul style="list-style-type: none"> <li>• Employees and employers point of view</li> <li>• Role of trade unions</li> <li>• Ownership structure of the textile and clothing industry in Lesotho</li> </ul>  |
| <b>Chapter Five:</b><br>Synthesis  | Synopsis  | <ul style="list-style-type: none"> <li>• Objectives revisited</li> <li>• Conclusion and recommendations</li> </ul>  |

**Table 1.1 Research framework**

The general outline of this investigation having been set out in this chapter, Chapter Two provides an analysis of the local economic development trends and the place of the textile and clothing industry therein. This particularly focuses on the industrialization of African textile and clothing industry. An overview of Lesotho textile and clothing industry is presented.

## **CHAPTER TWO**

# **LOCAL ECONOMIC DEVELOPMENT AND THE CLOTHING AND TEXTILE INDUSTRY**

### **2.1 Introduction**

Local economic development traditionally means the capacity of the national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its gross national product at rates of perhaps five to seven percent or more (Todaro, 1989:86). Todaro (1989) indicated that economic development in the past has also typically been seen in terms of the planned alteration of the structure of production and employment so that agriculture's share declines, whereas that of the manufacturing and service industries increases.

On the other hand, the new economic view of development indicates that local economic development came to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy. This chapter focuses on the importance of the clothing and textile industry at the global level in terms of income generation for a country and the associated employment generated through textile and clothing production. Firstly, the industrialization of the textile and clothing sector in Africa and in the SADC region is presented. Secondly, the chapter provides a discussion of AGOA, its stipulation and its benefits to both Africa and the United States. Then, international terms of trade and Lesotho position therein is discussed. Lastly, Lesotho's economy in the international context and its textile industry is reviewed.

## **2.2 Industrialization of Africa's textile and clothing industry**

The clothing industry offers Africa excellent “starter” opportunities for growth and development. The clothing industry is a branch of the wider textile industry, manufacturing apparel for infants, children, men and women using woven or knitted textile fabric as its main raw material. Clothing textile has become a global industry due to its production that is (world wide) connected through arrangements and strategic decisions to serve the world market. It is also global in the sense that it is governed by global trading relations and patterns of production established by global buyers (Gereffi, 1994; McCormick, 2001).

Industrialization in Africa dates back to colonial times when certain key industries were established to satisfy the needs of resident Europeans and African elites. Then, during the 1960s and 1970s, most African governments introduced import substitution policies aimed at industrializing their countries. They involved developing industry to serve the home market, “infant industry” protection, an over-valued currency that allowed the import of machinery and production inputs at reasonable costs, various price and currency controls, and the development of the agricultural sector to ensure sufficient food for urban workers (McCormick, 2001).

By the 1980s, the winds of structural adjustment were beginning to blow across Africa, and with them a strong push for market liberalization and a more export-oriented approach to industrialization. Both external and internal trade was liberalized, currency markets were freed, and many parastals were privatized or at least reorganized to function commercially. The effects of liberalization on industrialization have been mixed. The liberalization of currency markets and reductions in tariffs have made imported inputs easier to get, a benefit recognized by many industrialists. Indeed, in some countries export promotion schemes have attracted foreign direct investment, though this seems to be less a result of market liberalization than of opportunities created as a result of bilateral trading concessions such as the AGOA (McCormick, 1999).



The deregulation of local markets has eased the burden of licensing and related red tape, especially for micro and small enterprises, but it is clear that this is one area where there are considerable local variations. Market liberalization in Africa has also had a less positive face. The biggest problem has been the very rapid liberalization of imports. African countries were pushed in the early 1990s to remove import quotas and reduce tariffs due to pressure from the International Monetary Fund (IMF) and World Bank. This pressure, along with corruption in the customs departments in many African governments, resulted in a flood of cheap new and second hand imports. Protected local industries were unable to compete previously and many saw their markets disappearing and their production going down. The level of industrialization in Africa remains extremely low, yet many countries recognize the need to put appropriate policies into place to facilitate industrial growth (Pedersen, 2003).

Much of African industry is also technologically backward and Africa thus needs to take a fresh look at industrialization by looking at the types of strategies that are relevant to most African countries. Africa needs access to the world market if it is to create anywhere near the number of jobs needed to ensure sustainable livelihoods for the majority of its people. In most countries, domestic markets are simply too small to sustain efficient production. Regional trade holds some promise, but in many cases a country's neighbours have equally low purchasing power and are similarly flooded with cheap imports. To industrialize, there, most African countries will need to combine export production with production for local and regional markets (Dicken, 2003).

### **2.3 SADC Region**

Globalisation both menaces and offers opportunities to the SADC region. For the textile and garment industries the European Union has long been tariff-based and quota free for most such exports from Sub-Saharan Africa/countries with the exception of South Africa. Now, with the South African/European Union Agreement even that country will benefit, as will those SADC countries that would like to use inputs purchased from it to make products for export to Europe. The countries in the region have both advantages and disadvantages. The region produces and exports cotton, which could be grown even more

plentifully and utilized in a high value –added pipeline making yarn, fabric and clothing (McCormick and Rogerson, 2004). In the case of textiles in Africa, only fabrics made of natural fibers available in Africa were considered because there is no infrastructure to produce synthetic cloth. South Africa is the most industrialized country in Africa. Tanzania and Ethiopia are among the continent's least industrialized countries, while Kenya lies in a position in between these extremes. At the same time, many African countries have a history of state-led industrial development (McCormick and Rogerson, 2004)

Lesotho garment manufacturers exported a total of R127 million to South Africa in 2000. A number of the smaller Lesotho garment factories produce exclusively for the South African market. The majority of these are producing for the major chain store groups. In this market Lesotho must compete with both the South African produced merchandise and imported garments. While high levels of wages and an excessive regulatory environment have all but closed the garment industry in South Africa's traditional garment producing centres (Durban, Cape Town, Johannesburg), wages in the former South African homelands and designated decentralization areas are on a par and occasionally lower than those paid in Lesotho (Sechaba Consultants, 2002).

The South African garment industry has also been adversely affected by the lowering of import tariffs and the DCC (Duty Credit Certificate) Scheme. The DCC Scheme grants exporters an import duty credit based on a percentage of their exports. These DCCs are transferable and an active secondary market has developed in them. An exporter of cloth, for example, may receive a DCC entitling him to import R1 million free of duty. Assuming a nominal duty of 12 percent, this certificate would be worth R120, 000 and could be sold for 75 percent of its value. The importer could then land R1 million worth of goods at an effective nine percent duty cost. The DCC Scheme was withdrawn in Lesotho owing to misuse (Lesotho Review, 2003).

Lesotho is currently reviewing the reintroduction of the DCC scheme that will assist with the creation of regional backward linkages. Under this scheme fabric sourced in South Africa would become price competitive with East Asian cloth. It should be noted that the DCC scheme in South Africa has a limited life-span as it would be considered to be an unfair export incentive and was due to be phased out. The scheme in South Africa also has strong elements of social responsibility with the requirement that a significant portion of the benefit is spent on worker training and development. Accreditation of the worker upliftment programme is dependent on verification by the labour unions and the DTI (Department of Trade and Industry). Should Lesotho reintroduce the DCC scheme it should give serious consideration to incorporating the social elements (LNDC Report, 2002).

The lowering of import tariffs along with the reductions inherent in the DCCs and the possibility of dumping by Asian exporters has significantly eroded the competitiveness of South African produced clothing. Lesotho participates in this market with no advantage over the South African producers. The fact that it requires the crossing of an international border with VAT and Sales Tax implications works as a disincentive. All the major South African-based Lesotho garment factories have either closed, been sold to Asian companies or are in the process of closing down. There is no doubt that excessive bureaucracy and protectionism inhibits the opening of markets within the SADC region. While the long-term goal of SADC is to open the entire region to free trade, until this is significantly achieved, Lesotho will continue to have difficulty accessing the SADC markets on any significant scale (LNDC Report, 2002).

#### **2.4 AGOA and its Stipulation**

The Africa and Opportunity Act was signed into law by Former US president Bill Clinton in May 2000, and came into effect on January 2001. President George W. Bush renewed it in August 2002, as part of the Trade Bill. The Act extends preferential trade benefits to 38 Sub-Saharan African countries and Lesotho is one of them (Christ, 2001).

AGOA institutionalizes a process for strengthening United States (US) relations with African countries and provides incentives for African countries to achieve political and

economic reform and growth. AGOA offers eligible Sub-Saharan African countries duty-free and quota-free US market access for a number of products. It provides additional security for investors and traders in African countries by assuring General System of Preferences (GSP) benefits for eight years. AGOA eliminates the GSP competitive need limitation for beneficiary Sub-Saharan-African countries. AGOA establishes a US- Sub-Saharan African Trade and Economic Cooperation Forum to facilitate regular ministerial level trade and investment policy discussions. AGOA promotes the use of technical assistance to strengthen economic reforms and development, including assistance to strengthen relationships between US firms and firms in Sub-Saharan Africa (UNIDO, 2000).

The Act contains stipulations that govern Sub-Saharan African apparel and textile exports to the US. Thus, the Act lifts all existing quotas on eligible textile and apparel articles from eligible Sub-Saharan African countries, and extends duty-free and quota-free US market access for Sub-Saharan African apparel made from yarns and fabrics not produced in commercial quantities in the US (Ligomeka, 2001).

Since its enactment, AGOA has induced various US Government agencies to initiate additional measures designed to facilitate its implementation and to promote greater bilateral trade between Sub-Saharan Africa and the US. These initiatives cover such things as increased technical assistance, environmental protection and promotion of sustainable economic development, assistance with labour-related issues, for example, prevention of child exploitation and protection of workers' rights, development of transportation, communications, energy infrastructure, HIV/AIDS prevention and management, small business development and many more (Mshomba, 2000).

#### **2.4.1 Benefits of AGOA to Africa**

AGOA has helped to create thousands of job opportunities for many African residents. For, instance, AGOA has contributed to the creation of 40 000 jobs in Kenya, 15 000+ in Lesotho, 4350 in Malawi, 8 000 in Namibia and 11 000 in Swaziland. Many of these jobs

are substantially well paying relative to the average wage. AGOA also grants about 5,000 African products free access to the US market, which is expected to substantially boost economic growth in the region. Sub-Saharan African countries exported apparel worth \$356 million to the US in 2001, with most of these gains going to Lesotho, Madagascar, South Africa and Kenya. AGOA's intent to raise Foreign Direct Investment (FDI) in Africa has borne fruits. Most of the AGOA related FDI flows have gone to countries that offer the most competitive and investor friendly environments that is dependable, transparent, open regulatory regimes, adequate infrastructure, political and economic stability. Increased FDI in sub-Saharan Africa as a result of the African Growth Opportunity Act is also likely to be accompanied by significant technology transfers that could jump-start or modernize the region's textile industry, thereby making them more competitive globally (Dicken, 1998).

AGOA is also helping to revive dormant textile mills across the region, such as Kenya's Rivatex. This is beneficial to countries whose textiles industry had virtually collapsed owing to unfavourable competition with cheap imports. Moreover, the enactment of AGOA II, which contains additional preferences for apparel made with fabric and yarn produced in Africa, may provide incentives for the development of domestic weaving industries, thereby encouraging greater vertical integration in Kenya's textile and apparel industry.

Increased investment in Africa owing to AGOA is also helping the region to develop its transportation network, power communications and water structure. The development of facilities that are currently in a state of neglect could spur the region's development of traditional industry, as well as new economic sectors such as services. The growth of new economic sectors in sub-Saharan Africa could be a boon to the region, especially in the current information driven global economy (Christ, 2001).

#### **2.4.2 Downside of AGOA to Africa**

Despite the benefits of AGOA outlined above, this trading partnership also has costs that could undermine its ability to foster Sub-Saharan Africa's development through trade.

AGOA requires beneficiary countries to reform their political, social and economic structures to the satisfaction of the United States. Countries must have established a market-based economy, the rule of law, the elimination of barriers to US trade and investment, economic policies to reduce poverty, the protection of internationally recognized workers' rights and a system to combat corruption. These requirements are likely to force sub-Saharan African countries to adopt reforms that are inimical to their own interests and sovereignty (McCormick, 2004). Moreover, many other countries, especially those that have weak judicial and law enforcement systems and are deemed to be corrupt and politically unstable, may lose their AGOA benefits (Okong'o, 2002).

Since some see AGOA as Sub-Saharan Africa's reward for supporting US initiatives, most of which disadvantage developing countries, in recent WTO negotiations, the loss of AGOA benefits for whatever reason could be a double blow for these countries (Raghavan, 2000). Most of the products that AGOA covers are not currently produced in Africa or have only a limited potential US market. Moreover, AGOA's major benefit, that is eliminating quotas on textiles and apparel from sub-Saharan Africa, could prove fleeting because most of these quotas are to be phased out world-wide in favour of WTO rules (Lobe, 2000). As a result, the region may not be able to achieve substantial economic growth in the time frame provided by AGOA, or improve its lot in the global economy.

African products have limited or no market potential in the US, AGOA's benefits are disproportionately concentrated in very few African countries that either have abundant minerals and natural resources, or relatively developed economies with the technical infrastructural and financial capacity to take advantage of the opportunities offered by AGOA (LNDC Report, 2002). This unequal distribution of AGOA benefit confirms critics' fear that AGOA would end up benefiting the more developed or resource-rich countries, besides undermining Africa's regional economic cooperation initiatives (Raghavan, 2000).

### **2.4.3 AGOA Benefits to the United States (US)**

AGOA'S business-oriented eligibility requirements are designed more to lock African economies into US trade and market liberalization policies than to aid African development. As such, the act is an attempt to expand American business and corporate interests rather than those of poor African communities (Mshomba, 2000).

AGOA allows the US to use Africa to serve American domestic interests. Specifically, the act allows the US to create new markets for American cotton farmers, as well as textiles, clothing equipment, manufacturers, to create jobs for Americans as a result of increased demand for US equipment and inputs in Africa, and to obtain cheap African labour which could enable US apparel manufacturers to be more competitive with other producers such as those from Asia. Moreover, the act contributes to US efforts to maintain the standard of living of its citizens by providing them with cheap apparel (LNDC Report, 2002)

AGOA provides the US with substantial goodwill that can be used to achieve "important global objectives and geo-strategic interest (Mshomba, 2000). For instance, AGOA enabled the US to obtain critical African support for its initiatives at recent WTO negotiations. The US is keen to increase ties with sub-Saharan Africa because the region is the single largest trading bloc in the WTO (LNDC Report, 2002). AGOA allows the country to diversify its clothing imports from China. China is not only the dominant source; it is also one of the largest suppliers of its apparel needs.

### **2.5 The EU, ACP-EU Partnership Agreement (Lome/Cotonou) and the EBA (Everything But Arms)**

Lesotho's exports of all goods into European markets were no more than one million Euro in 2000 (Sechaba Consultants, 2001). While the European market is potentially as large as the United States its structure is significantly different. At this point in time the EU does not have the same scale of retail chain stores, meaning that single style orders, while relatively large, do not reach the massive scale of USA orders. In addition, the European market is more fickle requiring faster turn around (Sechaba Consultants, 2002).

The opening-up of the European market to the former Eastern Bloc countries has provided readily accessible and developing manufacturing economies on the EU's doorstep. Many of these countries have vertically integrated textile industries and, with shortened transport routes, they offer price advantages that render Lesotho exported goods uncompetitive. In addition, countries such as Egypt and Turkey, which are renowned for their cotton and clothing production, have preferential access into the EU market (LNDC Report, 2000).

The cumulation clause of the ACP-EU Partnership Agreement limits Lesotho's access to the EU market. Although South Africa does not currently qualify for ACP status, Lesotho can now use South African fabric for garment manufacture and qualify for duty-free access into the EU. Lesotho manufacturers currently view the South African fabric producers as being inferior in terms of quality and delivery and they are reluctant to expose their businesses to these inefficiencies. This creates an effective barrier to Lesotho's participation in this potentially profitable market. As Lesotho develops backward linkages through the establishment of its own fabric mills, the opportunities to exploit this market will increase (LNDC Report, 2000).

The EBA agreement launched in March 2001 allows Least Developed Countries (LDCs), of which Lesotho is part, to export their production of duty free into the EU; once again the cumulation provision applies. It is possible that, should Lesotho experience a significant downturn in its garment manufacturing industry due to the loss of its USA market, a strong case could be made for derogation from the cumulation provision of the ACP-EU Partnership Agreement. However, it is unlikely that this would be considered in the current period of growth within the industry (Sechaba Consultants, 2002).



## **2.6 International Terms of Trade and Lesotho**

The deterioration in the international terms of trade has long been suspected as negatively influencing the performance of developing economies, particularly those dependent on primary exports, such as in Sub-Saharan Africa. While Lesotho's opportunities in sustained economic growth will be determined by the degree to which it optimises its potential, global and regional influences are vitally important. The concept of globalisation offers opportunities for LDCs like Lesotho to share the benefits of universal economic growth (Lesotho Government, 2000). However, for globalisation to yield beneficial results, disparities between developed and developing economies must be eliminated. On its part, Lesotho can enhance its prospects of entering the global economy by expanding the narrow base of its export economy, adding value to its commodities, and improving its competitiveness through quality production and services. However, some risks associated with globalisation must not be overlooked (Lesotho Review, 2001).

The World Bank (1995) demonstrated that the Government of Lesotho has been pursuing poverty alleviation as its main development objective, with emphasis on employment creation and sustainable development. The fact that the socio-economic disturbances caused by the 1998 riots represent a national shock which damaged the economy, also retrenchment of mineworker from South African mines contributed a lot to the economy and poverty in the country (Government of Lesotho, 2000). The Ministry of Finance (1991) stipulated that at international level, recent trade instruments provide Lesotho with opportunities to enter the global market: SADC Free Trade Area Protocol (regional/international); ACP-EU Cotonou Agreement; American Growth and Opportunities Act; Smart Partnership International Dialogue for Economic Recovery; and Common wealth Partnership Technological Management. To benefit from globalization, Lesotho must improve its competitiveness through quality production and services. In this respect the Lesotho textile industry is a case in point (LNDC, 2001).

## **2.7 The Lesotho economy in the international context**

Lesotho's economy has traditionally been based on subsistence agriculture and animal husbandry, as well as small-scale industries that include clothing, footwear, textiles, food processing and construction. The small manufacturing base depends largely on farm products to support the milling, canning, leather and jute industries. Multipronged development strategies pursued in the past, involving either five or three-year rolling plans, have not been able to achieve the primary objective of improving the livelihoods of the people of Lesotho. Prior to 1998, Lesotho had experienced an economic boom, driven mainly by large-scale construction involving the Lesotho Highlands Water Project and rapid growth in the exports of manufactured textiles and clothing (Lesotho Review, 2000). The late 1990s saw a slow-down in these two growth sectors, with structural problems in the financial and utilities sectors building up and migrant labour remittances continuing to decline owing to progressive retrenchments, occurring for various reasons and deepening Lesotho's unemployment problems.

In 2000, Lesotho underwent an economic reform programme under the auspices of the International Monetary Fund, which supports the government's poverty reduction and growth strategy (through its Poverty Reduction and Growth Facility). Emphasis in this strategy is on export-led growth and employment creation (Sechaba Consultants, 2000). Lesotho's economy grew by about 3.3 percent during 2000 and 2001, with a slightly lower growth rate of 2.8 percent projected for the 2002 fiscal year while in 2003 GDP growth of 3.3 percent was experienced. The 2003 budget shows a rise in inflation, due to mainly an increase in the price of food; this is in short supply due to low agricultural output brought about by unfavorable weather conditions in 2001 (Lesotho Review, 2003).

Against a background of changes in the global economic environment, Lesotho is preparing itself to meet new opportunities and challenges for economic growth and private sector development as they arise. Based on free market principles and private ownership of property, the Lesotho economy presents a relatively open business climate. The government is doing all it can to facilitate the development of an efficient input and

output marketing system, providing a market policy environment that encourages private sector participation (LNDC Report, 2000).

Through private sector investment by local and foreign companies, the government of Lesotho is committed to an aggressive programme of industrialisation. Economic performance in the trade sector continues to be determined by regional free trade initiatives. The trade system in Lesotho is free of restrictions, and measures are being put into place to enhance external competitiveness, diversification, development and the promotion of small and medium enterprises. The government of Lesotho accords high priority to the creation of an enabling business environment and infrastructure that meet the demands of modern industry (Lesotho Review, 2001). However, manufacturing is not the only area that Lesotho is relying on for its economy, there are other areas like agriculture, the Lesotho Highlands Water Project and many more.

Expansion of sustainable remunerative employment in manufacturing and agro-industries is central to the government's strategy to achieve better standards of living for the country's people, and the government is totally committed to the development of the private sector. Indigenous private entrepreneurs and foreign private investors are seen as key partners in an extensive privatisation campaign. However, the Ministry of Industry, Trade and Marketing, together with the private sector, has the responsibility of developing the country's institutional capacity to foster sustained development of these vital sub-sectors (Lesotho Review, 2000). As a source of economic development, the manufacturing sector is able to achieve profitable growth through utilising Lesotho's highly favourable access to world markets. Lesotho-based manufacturers have a proven record of success in the world's most competitive and lucrative markets. Such growth is also attributable to the efficient and productive labour force in the country (Lesotho Review, 2001).

Export performance depends on several different factors. The productivity of the firm is an important determinant for the ability to set prices at a competitive level. It appears plausible that export performance and productivity are mutually reinforcing, to use competitive methods. It has been argued that the size of the firm plays an important role for export performance. This argument is based on the high initial fixed costs necessary in order to export textile materials. These costs are incurred, for example, for setting up a distribution network, gathering of market information or retooling equipment for production for exports. Moreover, bigger companies are more likely to invest in firm-based training (Aitken, 1994).

The positive and significant value of the TFP level shows that productivity has a direct effect on exports, as well as the indirect effect it has via the production volume. Smaller companies export less per employee than bigger companies, and medium-sized companies export the most per employee. In relation to the production from industries, the Government of Lesotho has been pursuing poverty alleviation as its main development objective, with emphasis on employment creation and sustainable development. The country achieved significant improvement in its major economic indicators since 1994/95, compared to the earlier decade period. Four major factors accounted for accelerated economic growth, namely: the IMF/World Bank Structural Adjustment Programme that the government adopted in 1988, followed by Enhanced Structural Adjustment Facility in 1991; a related cautious fiscal policy; high levels of private foreign investment in the Lesotho Highlands Water Project; and the impetus from export-oriented manufacturing, in particular textiles, garments, footwear and leather (Lesotho Review, 2002).

In Lesotho, the accelerated economic growth gains that were made in the decade up to 1997 were reversed in the following two years. In 1998/99, Lesotho's economy went into a recession. The country's GNP declined by a staggering 7.7 percent, and this trend continued. Lesotho's balance of payments position also took a turn for the worse during 1999/2000. For the first time in more than ten years, the country resorted to using its previously accumulated savings of foreign exchange earnings to pay for imports. As a

result, the foreign reserves had declined by some US\$70 million in December of the 1999/00 financial year. Gross reserves were the equivalent of about 6 month's imports of goods in the medium term in the manufacturing industry (Lesotho Review, 2002).

## **2.8 Lesotho textile and clothing industry: An overview**

The textile and clothing industry in Lesotho made a hesitant start in the mid 1980s. This was primarily as a response to South African based clothing companies who needed to avoid sanctions imposed on their manufactured goods by the USA and Europe. In addition, the LNDC offered incentives to the South African industrialists who set up in Lesotho. The main incentives were favourable rentals on pre-constructed factory shells, a relatively cheap and well-educated labor force, a five-year tax holiday which could be extended through further expansion and subsidized wages during a designated training period. The initial development of the garment industry took place in Maputsoe on the border with the Free State, which was the closest textile industrial area in Lesotho to Durban, where the headquarters of the South African textile industry was located (LNDC Report, 2002).

During the 1980's there were a number of advantages that Lesotho enjoyed over South Africa in terms of trade agreements with the Western World. Under the General System of Preference (GSP) manufactured goods from Lesotho enjoyed preferential duty regimes into such important markets as the USA, Canada and non-EU European countries. In addition, Lesotho was a signatory to the Lome Convention, which allowed duty free access of clothing into the European Union. Initially the conditions of access to the EU were simply that the garments needed to be sewn in Lesotho. During the late 1980s the regulations under the Lome Convention were altered with the requirement that "cumulation" must apply for qualifying status. Cumulation requires that two manufacturing processes must take place before clothing qualifies for duty free access. Moreover, it was no longer sufficient to make the garment, but the cloth itself had to be woven/knitted in the country of origin or another qualifying ACP (African, Caribbean, Pacific) state (LNDC Report, 2002).

In the 1980s Lesotho successfully applied for derogation from the cumulation provision of the Lome Convention. This derogation was allowed for a period of four years and was then renewed for a further period of four years. It was the favourable export environment created by the derogation that assisted the LNDC in attracting a second wave of investment in the late 1980s. While some new South African industries did commence operations in Lesotho during this period, the majority of the investment was by Taiwanese entrepreneurs. Many of these Taiwanese were operating clothing companies in South Africa attracted by the incentives offered for foreign investment by the beleaguered South African Government. The South African Government at that time was facing increasing global isolation and the Taiwanese Government was one of the few with which the South African Government managed to maintain diplomatic relations (LNDC Report, 2002). It was relatively simple for the Taiwanese to relocate from the South African homelands to Lesotho where they established export markets free from the sanction constraints of South Africa while enjoying the advantage of favourable access and import tariffs to the major Western markets (Sechaba Consultants, 2002).

Interestingly, with the expiry of the derogation, there were few closures and downsizing of companies involved in export to the European Union, with most of the companies successfully shifting their markets to the United States. At this point the companies were operating without comparative advantage to other developing countries. Garments imported in the USA from Lesotho were subject to an average import tariff of 17 percent. In addition, Lesotho was subject to quotas for its USA exports which were allocated to the country as a whole and then divided up amongst the exporters without a premium being placed on the purchase of a quota (LNDC Report, 2002).

With the introduction of the African Growth and Opportunity Act (AGOA), Lesotho, as a Least Developed Country (LDC) gained significant advantage over its competitor countries in the developing world. It could now export its clothing both duty and quota free, into the USA. In addition, as an LDC received the further benefit of not having to

apply cumulation to its clothing exports for a period of four years (Sechaba Consultants, 2003).

It is AGOA that is currently driving the unprecedented growth in the industrial garment sector in Lesotho. Many of the established companies have recently completed significant expansions resulting in major growth in employment in the industry. There are 12 companies that have expressed an interest in locating to Lesotho with potential employment of a further 8,500 workers that are awaiting the provision of factory buildings. Two existing projects are awaiting expansion of their factories with the potential to create a further 600 new jobs. Moreover, five companies have expressed an interest in constructing their own buildings with the potential of 3,500 new jobs (Lesotho Review, 2002).

It is generally believed that if there is no extension to the LDC advantage allowed for in AGOA, then the window of opportunity to attract new industries is extremely limited. At the same time it is envisaged that there will be a gradual erosion of Lesotho's advantage through a new round of World Trade Organisation talks agreed to at Doha. Both China and Taiwan were admitted to the WTO and a number of large textile producing nations are actively lobbying for the removal of tariff barriers to their exports. In addition, it is possible that Pakistan, a major textile producing country, may achieve special trade access to the USA in recognition of its support during the Afghan war (Lesotho Review, 2003).

## **2.9 Conclusion**

This Chapter focused on the importance of textile industry globally by looking at the industrialization in Africa, AGOA and clothing and textile industry at international market. Additionally, income generation and job opportunities was also looked at. However there was limited discussion on the clothing and textile industry at the international scale where Lesotho is incorporated, though at very small scale. This Chapter provides information on the Lesotho's economic development in the international

context focusing on how to increase foreign direct investment and improved trading regime as a way of achieving sustainable development.



## **CHAPTER THREE**

### **THE LESOTHO CLOTHING AND TEXTILE INDUSTRY**

#### **3.1 Introduction**

Chapter Three provides an overview of the spatial distribution and the structure of the clothing and textile industry in Lesotho. It pays attention to the prevailing driving forces behind the growth of this industry in the country. Finally the role played by the clothing and textile industry in poverty reduction in Lesotho is also discussed.

#### **3.2 Structure of the textile industry in Lesotho**

There are 49 factories operating in textile industries in Lesotho. Table 3. 1 shows all clothing industries operating in Lesotho and their total work force. These figures are from April to September 2003. Some factories have relatively constant numbers. This simply means that there were no new people hired or fired and this happened in most industries in April and May with the total employees of 34,815. The increase of employees is shown in June (40 647), July (42 557) and August (43 393) and is because industries hire new employees because of the load of their orders. By September the number of hired people decreased and this means that firms were expelling some employees because of few of orders. The increase that is seen in June, July and August is expected to continue as time goes on because more firms are being constructed and more foreign investors are investing in Lesotho, making use of AGOA opportunities.

The garment industry is divided into factories producing garments manufactured from knitted cloth and clothes produced of woven cloth including denim. Exports to the USA showed an increase in fabric goods in 2000. This increase in value of goods imported from Lesotho at that period is 42 per cent for knitted products and 14 per cent for wovens products. These trends were repeated in the first six months of 2001 with the value of imports of knits growing up to 67 per cent and wovens up to 36 per cent.

**Table 3.1: Companies and their work force**

| <b>Estate</b>    | <b>Company</b>      | <b>Established</b> | <b>April</b> | <b>May</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> |
|------------------|---------------------|--------------------|--------------|------------|-------------|-------------|---------------|------------------|
| Nyenye           | BA Tex              | 1997               | 270          | 270        | 270         | 272         | 270           | 270              |
| Maseru           | C River             | 2001               | 780          | 780        | 750         | 805         | 729           | 736              |
| Nyenye           | Carca<br>Components | 1997               | 629          | 629        | 674         | 674         | 66            | 66               |
| Maputsoe         | Ceebee              | 1999               | 347          | 347        | 335         | 332         | 304           | 360              |
| Thetsane         | CGM                 | 1987               | 1582         | 1582       | 1582        | 1888        | 1754          | 1606             |
| Maseru           | Chairmex            | 2001               | 70           | 70         | 250         | 70          | 253           | 250              |
| Mohale's<br>Hoek | Ever Unison         | 2003               | 1400         | 1400       | 1400        | 1400        | 1563          | 1547             |
| Maseru           | E River             | 2001               | 396          | 396        | 296         | 416         | 416           | 460              |
| Nyenye           | Exp. Unlimited      | 2001               | 400          | 400        | 348         | 400         | 400           | 348              |
| Maseru           | Five-Eight          | 2002               | 210          | 210        | 300         | 220         | 240           | 220              |
| Thetsane         | Global Garments     | 2003               | 1238         | 1238       | 1493        | 1790        | 2100          | 2242             |
| Nyenye           | H.K.International   | 2001               | 880          | 880        | 900         | 1049        | 911           | 830              |
| Maseru           | Hinebo              | 1989               | 580          | 580        | 580         | 596         | 600           | 551              |
| Maseru           | Hippo               | 2000               | 1183         | 1183       | 1183        | 1300        | 1226          | 1183             |
| Nyenye           | Humin Jeansaw       | 2002               | 216          | 216        | 253         | 249         | 280           | 249              |
| Thetsane         | J&S                 | 1996               | 585          | 585        | 567         | 580         | 580           | 567              |
| Nyenye           | J.W.International   | 2002               | 240          | 240        | 240         | 240         | 320           | 320              |
| Thetsane         | Lekim               | 1997               | 900          | 900        | 850         | 820         | 820           | 820              |
| Thetsane         | Les.FancyGroup      | 2001               | 3000         | 3000       | 3000        | 2500        | 2500          | 2000             |
| Maseru           | Les.Antlannitica    | 2002               | 300          | 300        | 300         | 418         | 418           | 396              |
| Maputsoe         | Lesotho Haps        | 1986               | 1600         | 1600       | 1450        | 1471        | 1288          | 1400             |
| Maseru           | Maseru Textiles     | 2001               | 315          | 315        | 350         | 430         | 430           | 450              |
| Thetsane         | Maluti Textiles     | 1998               | 568          | 568        | 500         | 625         | 625           | 672              |
| Maseru           | N River             | 2001               | 537          | 537        | 550         | 562         | 560           | 683              |
| Thetsane         | Nien Hsing          | 2001               | 1800         | 1800       | 1800        | 2295        | 2295          | 2597             |
| Mafeteng         | P&T Garments        | 2001               | 2200         | 2200       | 2332        | 2695        | 2568          | 2580             |
| Maseru           | Precious            | 1999               | 600          | 3600       | 3873        | 3878        | 3878          | 3200             |
| Thetsane         | Presitex            | 2000               | 500          | 2500       | 2686        | 2700        | 2800          | 3353             |
| Nyenye           | Raytex              | 2002               | 572          | 572        | 524         | 520         | 670           | 652              |
| Nyenye           | Reflex              | 2000               | 350          | 350        | 332         | 353         | 346           | 355              |
| Maseru           | San Yongs/Sweat     | 2002               | 250          | 250        | 250         | 250         | 250           | 250              |

|                  |                 |      |              |              |              |              |              |              |
|------------------|-----------------|------|--------------|--------------|--------------|--------------|--------------|--------------|
| Thetsane         | Santi Kon       | 2003 | 600          | 600          | 581          | 700          | 700          | 720          |
| Maputsoe         | Springfield     | 1995 | 1641         | 1641         | 1298         | 1276         | 1278         | 1298         |
| Thetsane         | Sun Textiles    | 1994 | 1150         | 1150         | 1050         | 1014         | 811          | 1047         |
| Thetsane         | Tai Yuan        | 2000 | 788          | 788          | 961          | 945          | 945          | 965          |
| Maseru           | Teboho Textiles | 1997 | 1236         | 1236         | 1131         | 1100         | 1300         | 1800         |
| Nyenye           | TW Garments     | 2002 | 1200         | 1200         | 1260         | 833          | 833          | 1000         |
| Maseru           | Tzicc           | 2000 | 1927         | 1927         | 2100         | 1975         | 2350         | 2200         |
| Thetsane         | United          | 1996 | 1788         | 1788         | 1900         | 1811         | 1709         | 1659         |
| Maseru           | Wonder          | 2002 | 330          | 330          | 330          | 330          | 362          | 354          |
| Mohale's<br>Hoek | Alleycat        | 2003 | 0            | 0            | 0            | 0            | 745          | 715          |
| Mohale's<br>Hoek | Procom          | 2003 | 0            | 0            | 0            | 0            | 0            | 46           |
| Thetsane         | Shiang Bei      | 2003 | 0            | 0            | 0            | 0            | 0            | 300          |
| Thetsane         | Baneng          | 2003 | 0            | 0            | 0            | 0            | 0            | 600          |
| <b>Total</b>     |                 |      | <b>35158</b> | <b>40158</b> | <b>40829</b> | <b>42557</b> | <b>42648</b> | <b>40779</b> |

Of the 49 factories, 41 are producing for the USA and Canadian markets only, six for South Africa only, and two are service companies to Canada and South Africa. The companies that are producing for the USA and Canada indicate a 95 percent split between these two markets areas. However, among these 49 factories, most factories (36) are subsidiaries of Taiwanese companies, while four factories have head offices in Hong Kong, two factories are subsidiaries of South African companies, four companies are Lesotho-based although only one of them is Basotho owned and one factory has its head offices in Singapore and Israel.

### 3.3 Spatial distribution of textile and clothing industries in Lesotho

The spatial distribution of industries per district in Lesotho and their date of establishment are shown in Figure 3.1 below. It is evident that most of the textile and clothing industries are located in the lowlands mainly because these areas are accessible and close to the border to South Africa.

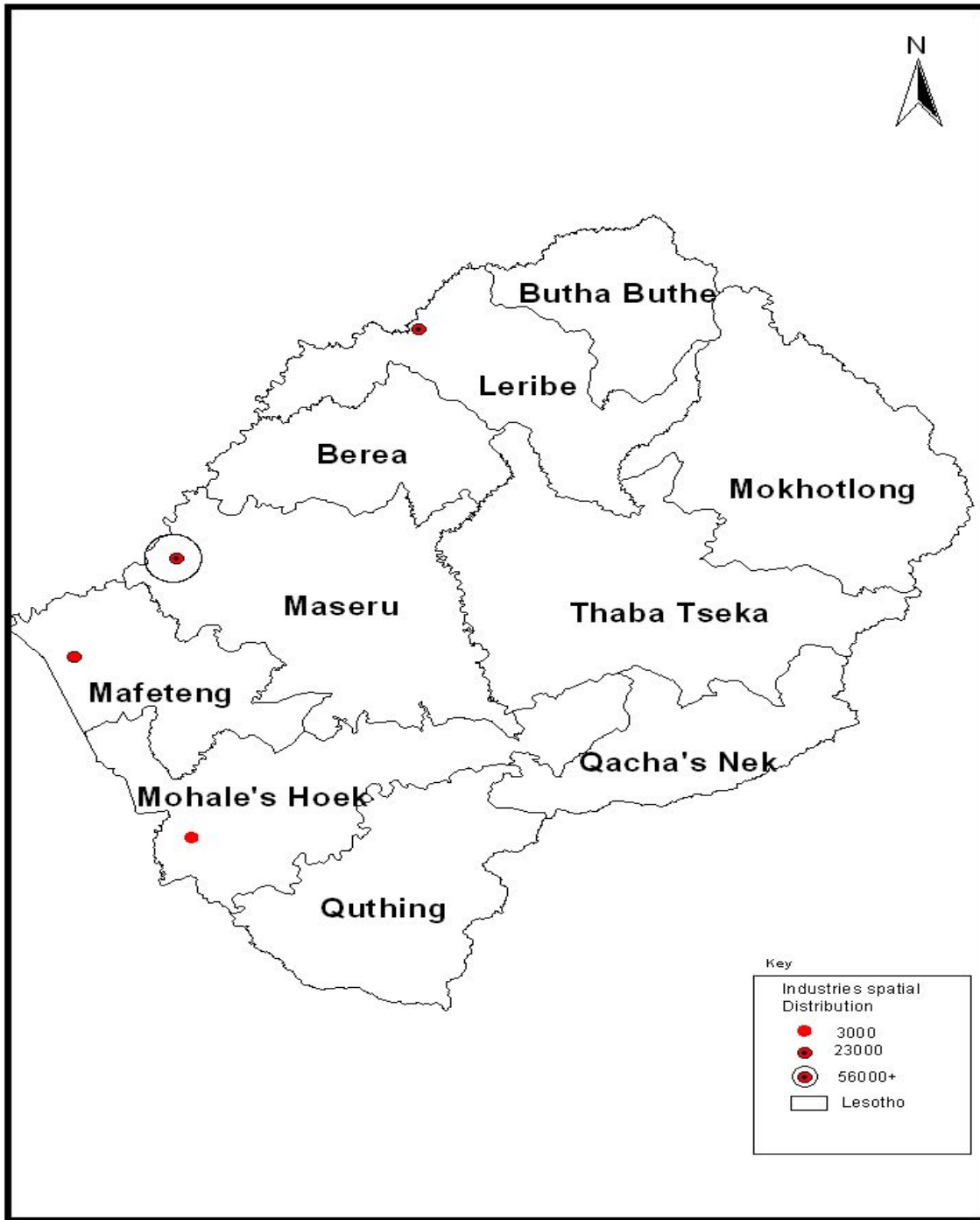


Figure 3.1 Spatial distributions of textile and clothing industries in Lesotho

Clothing and Textile industries started as early as 1982 in Maputsoe area in the Leribe district. Then this area was followed by Thetsane industrial area and other industries in the Maseru district in 1987. Maseru, the capital city, was the second district in Lesotho to build and establish the textile and clothing industries and this is where the study area Thetsane is located. Then Mafeteng was established in 2001 and Mochale's Hoek was the last area to be developed in 2003 and is still under development. Only four districts have textile industries in the country and hopefully the other six districts will soon be covered.

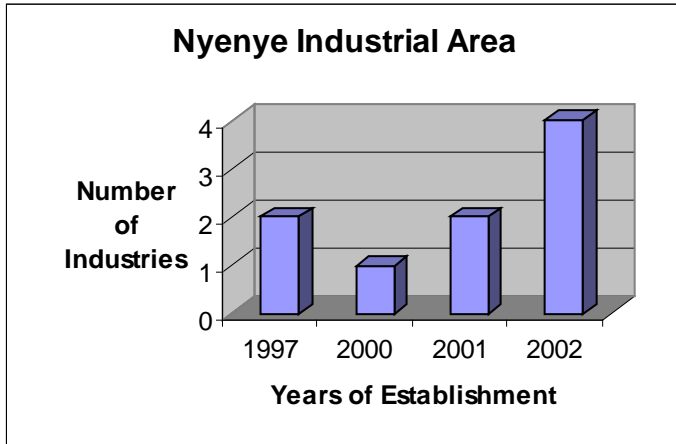


Figure 3.2 Nyenye industrial area

Figure 3.2 above shows industries that are found in the Northern part of Lesotho and their temporal of distribution. This area started with two industries in 1997 and one left the country due to political instability in 1998. In 2001 one industry came into Lesotho because there was no longer political unrest and more industries came in 2002.

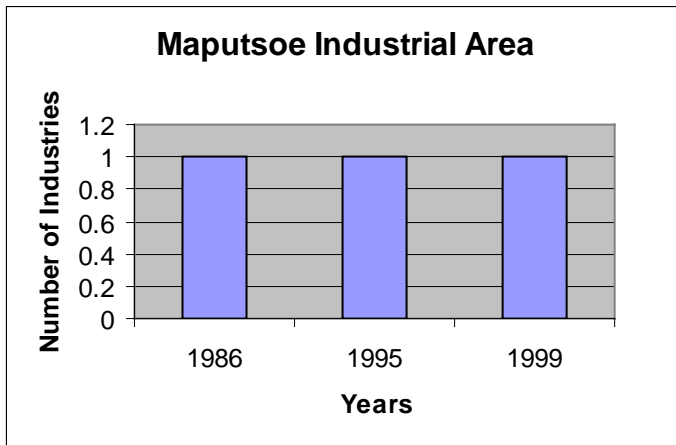


Figure 3.3 Maputsoe industrial area

Figure 3.3 also shows industries in the northern part of Lesotho. Maputsoe and Nyenye are in the same district but at different areas. In Maputsoe there was only one industry since 1986 till 1999.

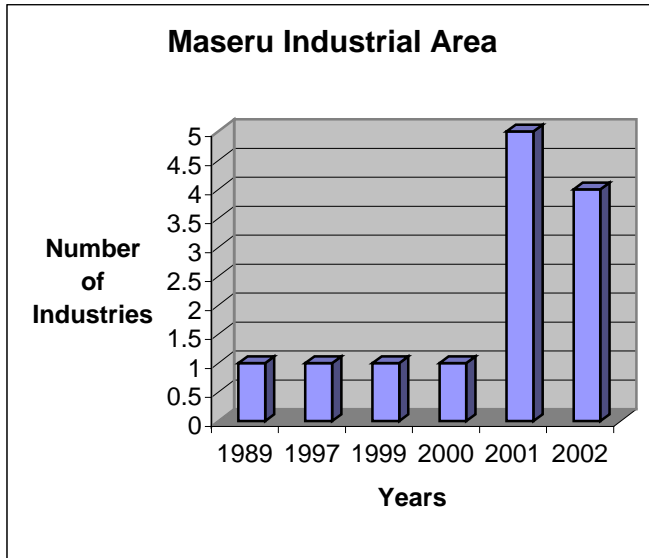


Figure 3.4 Maseru industrial area

Figure 3.4 above shows the establishment of industries in the central part of Lesotho. Maseru industrial area is found in the capital of Lesotho. Industries in Maseru started in 1989 with only one industry. In 2000 after political riots in this city, then more industries were developed and that is when this sector reached its highest point with about five (5) industries in this area.

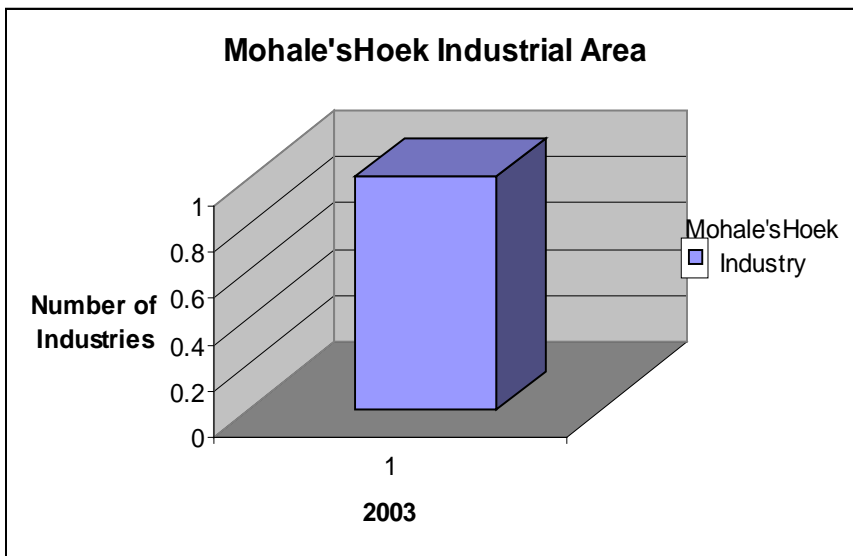


Figure 3.5 Mohales'hoek Industrial area.

Figure 3.5 shows one industry that is found in Southern part of Lesotho. In 2003 this industry has been established.

### **3.4 Driving Forces**

It is apparent that the predominant driving force within the garment industry is the comparative advantage that Lesotho enjoys for its exports to the USA under AGOA. Its early registration under AGOA and its classification as a Least Developing Country (LDC) has created additional advantages. The recent reclassification of Namibia and Botswana as LDC states creates greater regional competition for new garment start-ups, but Lesotho's proven track record in operating under AGOA.

However, the political uncertainty in the region and particularly Zimbabwe has caused wide spread speculation in currencies in the region. The South African currency is volatile, but has been the best performing currency against the US\$ in the past two years. The major local costs of the garment industries in Lesotho, wages and utilities, have all become relatively cheaper in terms of their dollar selling prices. In 2001 wages were increased in this sector by 10 percent against a drop in dollar cost of 39 percent. However, it is no longer the case now, but the real wage costs to industrialists by then exporting to the USA decreased by 29 percent during 2001. This decrease assisted in maintaining Lesotho's cost competitiveness and gives some room to address the wage demands within the industry.

There is this issue of why the industrialists are attracted to Lesotho and what problems they encounter in operating in the country. For the most part the industrialists agreed that they found Lesotho a place where they can conduct their businesses without undue legislative bureaucracy. They find the labour skilled and willing to work, wages and utilities reasonable, reliable enough for them to be able to conduct their businesses. The AGOA advantages enjoyed were stated to be important to all of them although most of them were operating in Lesotho before AGOA was implemented. This does not mean cheap labour but reasonable enough for industrialists to conduct their businesses.



Industrialists were aware that the window of opportunity was limited if they wished to recoup their investments as they had only four years of special LDC advantage. Companies investing in building their own shells now may have time to get the return on their investments but this will not be the case if they do not invest quickly. Should the LDC advantage be extended, it is conceivable that there will be a rush for further start-ups and expansions. If there is no extension then the emphasis on investment may switch to fabric production, particularly knitted fabric.

### **3.5 The Lesotho Clothing and Textiles Regulatory System**

Efforts by concerned consumers and international labor organisations have focused attention on the working and environmental conditions under which products are manufactured. This attention and the possibility of negative publicity has forced all the international brands to adopt Codes of Conduct to which factories must comply with while producing their products. These Codes are driving the transformation of the garment sector globally and are having a major effect on Lesotho. All factories producing for export to the USA have to comply with minimum standards and they are inspected regularly to ensure their compliance. It is the Codes of Conduct that is opening the Lesotho garment sector to change in its industrial relations policies (Lesotho Review, 2004) and will ultimately force a change in the current environmental degradation caused by the garment sector.

### **3.6 Government Ministries**

#### **3.6.1 Ministry of Trade, Industry and Marketing (MTIM)**

The Ministry of Trade, Industry and Marketing (MTIM) has overall responsibility and sees its task as formulating and monitoring the implementation of appropriate commercial, marketing, and industrial development policies and enforcing supporting legislation. The MITM is ultimately responsible for the LNDC and is instrumental in representing the needs of industry to Government.

This Ministry is at the centre of planning and monitoring the development of industry and trade in Lesotho. It has taken the lead in upgrading infrastructure to the industrial estates by establishing a task force of all utility providers and other agencies involved in industrial development. Meeting on a weekly basis the task force has been driving the utility providers to upgrade utility provision particularly to the Thetsane estate where the new denim mill is being built. It is essential that the upgrade in utilities be in place to meet the commissioning date of the mill. The MITM has also taken the lead in co-ordinating the Integrated Framework for Trade in the country.

### **3.6.2 Ministry of Employment and Labour**

The Ministry of Employment and Labour formulates and monitors the implementation of Labour policy. It also sees its role as promoting tripartism and social dialogue. The newly constituted DDPR, IRC and Labour Appeal Court fall under the responsibility of the Minister of Labour.

#### **3.6.3 The Directorate for Dispute Prevention and Resolution (DDPR)**

The DDPR as an independent organisation established under the tripartite body of the Industrial Relations Council (IRC) represents Government, Employers and Labour. Its vision is to promote justice at work in order to obtain industrial peace and stability.

The Labour Code amendment establishing the DDPR, the IRC and its Labour Appeal Court was gazetted in April 2001. The amendment was signed into law at the beginning of 2002 and DDPR commenced operations in January the same year. The DDPR is fully staffed and has started to function.

The DDPR inherited 200 cases from Department of Labour. Its task is to attempt to prevent trade disputes at source and to develop strategy and prevention measures. It is responsible for dispute resolution through conciliation, arbitration and mediation. Since

the commencement of operations it has received over 550 disputes and by the end of March 2002 had processed 366 of these. Some were settled by conciliation and others by arbitration. The DDPR assisted in alleviating some of the tensions and misapprehensions that exist in the industrial relations scenario (Lesotho Review, 2003).

#### **3.6.4 Lesotho National Development Corporation (LNDC)**

The Lesotho National Development Corporation (LNDC) is a Government of Lesotho parastatal body whose mandate is to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce. It is 90 percent owned by Government and ten percent allocated to the DEG (a German finance company for investments in developing countries) (LNDC Report, 2002).

The achievements of the LNDC in promoting industrial development in Lesotho are highly creditable. It is frequently the first point of contact for prospective investors and the well-motivated professional staff has extensive experience in easing new industrialists into the country. The senior staff of the LNDC is well informed concerning the priorities for industrial development. They actively attempt to promote diversification both of the source of FDI and the type of investor industry. While the LNDC is aware of the task at hand, it lacks the financial resources to pursue all its programmes effectively. However, the Investment Promotion Centre (IPC) of the LNDC is charged with marketing Lesotho as a destination of choice to potential manufacturers. To do this it produces various leaflets and guides. Targeting of potential investors is done from a comprehensive database of large South African companies involved in labour intensive industries. Trade missions have gone to South East Asia, but these “piggy back” on companies that already have factories in Lesotho.

The Interim Political Authority (IPA) needs to focus on achieving some degree of diversity into the industry. They also attempt to attract fabric producers and yarn, trim, zip, button, bag, hanger and carton manufacturers. There is a need to assess the requirements of the industry and establish which products could be viably manufactured

in the country and then target companies accordingly. This would assist Lesotho in taking full advantage of AGOA and follow a better approach towards inward investment.

The LNDC's Operations Directorate maintains contact and monitors the performance of the client companies within its portfolio. This directorate also runs the LNDC's Industrial Relations department that assists industrialists with dispute resolution and personnel policy planning and implementation.

### **3.7 Lesotho Clothing and Allied Workers Union (LECAWU)**

The Lesotho Clothing and Allied Workers Union is by far the largest trade union representing workers in the garment industry. In the past the activities of the trade union were hampered by a hostile attitude on behalf of many of the industrialists, some of whom actively fought to keep union activity to a minimum on their premises. Since the implementation of AGOA in Lesotho things have changed markedly and the union now claims that most industrialists grant them access to their workers. As a result, the Union has started to grow both in terms of members and influence said Maraisane, the chairperson of Union who willingly discussed the pros and the cons of the union.

Over the years the Union has received assistance in various forms from the donor community. This has resulted in the union officials being well trained and fully cognizant of international labour level developments. The Union is affiliated to a number of international and regional labour movements such as the International Textile and Garment and Leather Workers Federation (ITGLWF) and to the South African Clothing and Textile Workers Union (SACTWU) and, through this body, to COSATU. Maraisane (2002) mentioned that the Union uses these contacts to gain information about wages and working conditions in the region, to share information and maintain solidarity on regional issues.

### **3.8 The Industry's role in poverty reduction**

Lesotho is one of the poorest countries in the world. With a per capita income of US\$415 in 1999 the country is classified as a Least Developed Country and is ranked 120 out of 162 countries on the UNDP Human Development Index (Lesotho Review, 2001).

Based on income levels, 58 per cent of Lesotho's population is considered to be poor, and nearly one third is classified as ultra-poor. In 1994, 72 per cent of rural households were poor compared with 27 per cent of the Maseru urban households (UNDP and Bureau of Statistics, 2001).

One of the primary reasons for the increase in poverty in the rural areas is the loss of remitted wages from the South African mines. It is estimated that 59,000 miners were employed on the mines in the first half of 2000 compared with double that figure a decade previously. Cash remittances from South African employment were the principal source of Basotho household income in 1986/7 but by 1994/5 this had been overtaken by wages and salaries earned in Lesotho.

The Government of Lesotho (GOL) is currently developing a comprehensive Poverty Reduction Strategy Paper (PRSP) and for this purpose has established a series of Sectoral Working Groups to lead the development of pro-poor sectoral strategies that will be prioritised within an overall and medium term framework for public expenditures. Leading the work in the sectoral Working Group on Industry, Trade and Tourism is the Ministry of Industry, Trade and Marketing. The PRSP is expected to provide the overall framework for the development process in Lesotho within the context of the long Term National Vision 2020.

In addition, the Steering Committee for the Integrated Framework for Trade-Related Technical Assistance (IF) has been established under the chairmanship of the Principal Secretary (PS) for MITM. The IF process is designed to increase the effectiveness of

trade-related technical assistance to the LDCs. Participating agencies in the IF process are IMF, ITC, UNCTAD, UNDP, World Bank and WTO and these agencies are facilitating the IF process and providing technical assistance such as a Diagnostic Trade Integration Study (DTIS) to analyse trade obstacles and prioritise technical assistance requirements. It is one of the primary stated objectives of the GOL to make job creation a priority. The Minister of Finance and Development Planning Mr. Maope stated in the Budget Speech of April 2001 that “In Lesotho, massive unemployment is the fundamental cause of the desperate poverty situation”. He further committed the Government to their programme of action including the reduction of poverty, the creation of jobs and the attainment of good governance.

The phenomenal growth in employment in the garment industry is an indication that the GOL’s policies and strategies have worked. Over 10,000 new jobs were created in this sector in 2001 alone bringing the total workforce in excess of 32,000. It should be of some concern, however, that all employment growth has taken place in the garment sector and employment in other sectors such as retailing has shrunk in the same period. The GOL and its primary industrial promotion agency, the LNDC, are aware of the need to diversify away from the garment sector and to diversify product ranges within the garment sector to build some resilience into the industrial base. This is proving to be a difficult task, as garment investors appear to be keen and reasonably plentiful while investors in other labour intensive industries such as electronic assembly are few.

It is generally accepted that Foreign Direct Investment (FDI) is a key ingredient for successful economic growth in developing countries like Lesotho. Growth is one of the single most important factors affecting poverty reduction and FDI implicit in the expansion of the garment industry is of enormous significance to Lesotho.

There are many significant ways in which FDI affects the quality of growth and assists in poverty reduction. The requirements of investors contribute to the quality of infrastructure

development. Customers' requirements contribute to improving environmental and labour standards due to concerns about reputations in markets. FDI stimulates increased economic activity that generates revenues and taxes, which increase of Government's ability to provide safety nets for the poor. Technology transfer is another key component of FDI that drives growth and reduces poverty and finally FDI can and should contribute to the wider community through programmes of social responsibility.

An effective way for the GoL to develop and find pro-poor policies is by an increasing income from revenue and taxes generated through economic growth. FDI in the garment industry supplies the cash income requirement, which is essential in creating a trickle down into the poorer sectors of the economy. Another advantage is that the educational entry level for workers into the garment industry need not be particularly high thereby not specifically excluding the extremely poor from participating.

The size of the garment industry in Lesotho and the scale of its growth must be seen as an integral link in the development of the country's poverty reduction strategy and should be given due emphasis in the PRSP and IF processes. No other sector currently offers the same opportunities for stimulating growth, increasing employment and promoting technological transfers. It is important that the Sectoral Working Group for the PRSP and the Steering Committee for the IF processes are sensitised to the issues raised in this study as they are key to taking the recommendations forward into the PRSP and IF.

### **3.9 Conclusion**

The industrial garment sector in Lesotho is one of the recognised private sectors employer and is making a considerable contribution to Lesotho's GNP. The competition to attract garment industrialists wishing to take advantage of AGOA grows as more countries are accredited under the scheme. It is important for Lesotho to ensure that it urgently attends to its infrastructural problems if it wishes to continue to compete. It is found that the Union is fully cognisant of the comparative wages across the region and it is interesting to

note that they are aware that the wages paid in the traditional garment centres in South Africa had led to the industries demise in these areas. The Union acknowledged that wages in Lesotho are on par with other areas in the region.

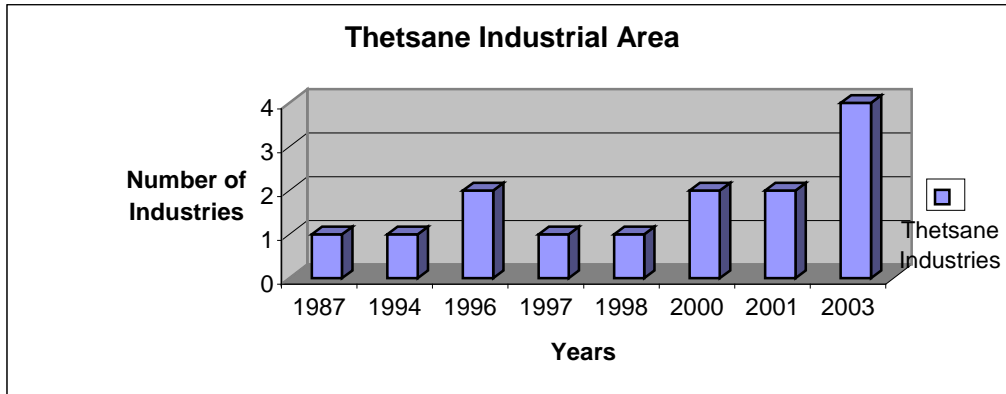


## **CHAPTER FOUR**

### **THE STRUCTURE OF THE CLOTHING AND TEXTILE INDUSTRY IN THE THETSANE AREA**

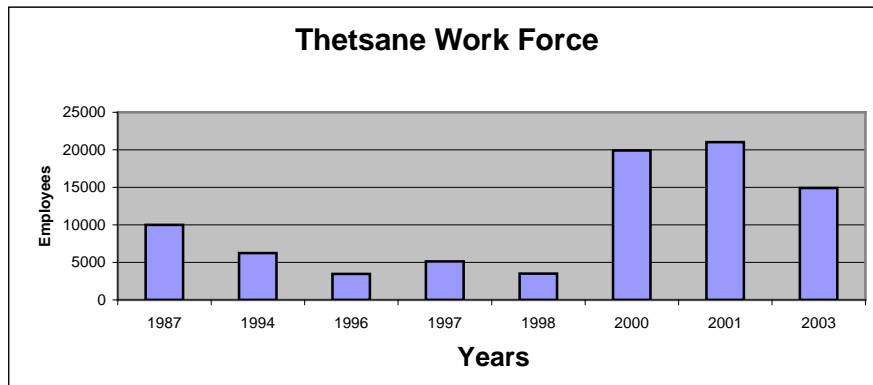
#### **4.1 Introduction**

The primary objective of this study was to survey the industrial garment industry at Thetsane in Maseru, Lesotho. The main aim in this Chapter is to relate textile and clothing industry development, in terms of the factories themselves and those finding, employment therein, to the attainment of broader economic development. The garment sector has grown to four districts in Lesotho (Maseru, Leribe, Mafeteng and Mhaleshoek as shown in Figure 3.1). This study concentrated on industries located in Maseru at the Thetsane industrial area. Chapter Four looks at the findings of the survey of the study area through employees' and employers' interviews (see Appendix 1 and 2). The data is analyzed by looking at the biographical data of both the employers and the employees, then the income and expenditure of the employees, then the education standard of both was also considered. This chapter focused on the work-force at Thetsane Estate and the development in this area. Figure 4.1 shows textile industries found at Thetsane industrial area in the Maseru District from its year of development while Figure 4.2 depicts the Thetsane work force. When linking this Chapter with previous chapters it is observed that the preferential phase-out of tariffs and quotas offers SADC countries an historically unique opportunity to develop their clothing and textile industries quickly. But the offer comes with a threat that it is either the country grow fast of learn to be competitive immediately or lose the markets. What is prevailing now in this sector is go global or withdraw the market.



**Figure 4.1 Number of factories in the Thetsane Industrial area**

The textile industries of Thetsane produce different types of products such as T-shirts, jeans, pants, skirts and sportswear etc. The pattern in Figure 4.1 shows that these industries started in 1987 and they were very few but as time went on they increased in number especially in 1996.



**Figure 4.2 Thetsane Work Force**

The sudden decline in new factory establishment in 1998 can be ascribed to the political turmoil during that year. Many factories were seriously damaged in that year. The foreign investors left the country because of the political instability. In 2000 to 2004 was an increase in the establishment of new textile factories. This upward trend can be ascribed to the fact that Lesotho got trade advantage through AGOA and most foreign investors came back and invested in Lesotho. This led to a rapid increase in the number of jobs created in Maseru as seen in Figure 4.2. Thetsane industrial area is occupied by industries owned by different holding companies from different parts of the world

including South Africa, Singapore, Taiwan and Hong-Kong. These companies and their industries have their markets also in many countries of the world such as South Africa, the USA and many more. In Lesotho corporate income tax heavily favours investment in manufacturing. Manufacturing and farming are taxed 15 percent and there is no withholding tax on dividends paid to non-residents from manufacturing profits. Income in all other sectors is taxed at 35 percent and there is a further 25 percent withholding tax on non-resident dividends. The United Kingdom agreement provides for tax savings on Lesotho's reduced income tax in manufacturing but not for subsequent fiscal incentives. There is also the import duty and excise set by SACU. Manufacturers for export are able to register for duty free import of raw materials. This is a welcome improvement to the drawback system, which suffered from arrears in refunds.

In 1998 many industries were burnt and some owners who were not members of SACU left the country for good because it was hard for them to recover from the damage done to their businesses. From 2000 to 2004 the work force increased because more investors came to Lesotho because of AGOA opportunities in Lesotho.

## **4.2 Employee's views**

### **Biographical data**

The respondents main characteristics in terms of age, gender and the type of work they do in the clothing and textile industry are outlined in Table 4.1 below. The percentage of each job category is broadly reflective of the general division of different types of jobs in the average in clothing and textile factories found in Lesotho.

**Table 4.1 Job, Age and gender of participants**

| Job Title    | Age<br>20-30 | Gender |    | Age<br>30-40 | Gender |    | Age<br>40-45 | Gender |   | Total      | %          | F         | M         |
|--------------|--------------|--------|----|--------------|--------|----|--------------|--------|---|------------|------------|-----------|-----------|
|              |              | F      | M  |              | F      | M  |              | F      | M |            |            |           |           |
| Sewing       | 16           | 12     | 4  | 9            | 7      | 2  | 2            | 1      | 1 | 27         | 23         | 20        | 7         |
| Cutting      | 8            | 6      | 2  | 3            | 2      | 1  | 1            | 0      | 1 | 12         | 10         | 8         | 4         |
| Joining      | 9            | 8      | 1  | 3            | 2      | 1  | 0            | 0      | 0 | 12         | 10         | 10        | 2         |
| Counting     | 4            | 3      | 1  | 4            | 3      | 1  | 1            | 1      | 0 | 9          | 8          | 7         | 2         |
| Laundry      | 7            | 6      | 1  | 4            | 2      | 2  | 1            | 1      | 0 | 12         | 10         | 9         | 3         |
| Checking     | 5            | 4      | 1  | 2            | 1      | 1  | 0            | 0      | 0 | 7          | 6          | 5         | 2         |
| Ironing      | 6            | 5      | 1  | 4            | 3      | 1  | 1            | 0      | 1 | 11         | 9          | 8         | 3         |
| Packing      | 5            | 4      | 1  | 3            | 2      | 1  | 2            | 0      | 2 | 10         | 8          | 6         | 4         |
| Cleaners     | 0            | 0      | 0  | 5            | 5      | 0  | 2            | 1      | 1 | 7          | 6          | 6         | 1         |
| Loading/Unl  | 5            | 0      | 5  | 3            | 0      | 3  | 0            | 0      | 0 | 8          | 6          | 0         | 8         |
| Receptionist | 5            | 5      | 0  | 0            | 0      | 0  | 0            | 0      | 0 | 5          | 4          | 5         | 0         |
| <b>Total</b> | <b>70</b>    | 53     | 17 | <b>40</b>    | 27     | 13 | <b>10</b>    | 4      | 6 | <b>120</b> | <b>100</b> | <b>84</b> | <b>36</b> |

Table 4.1 reveals that there are different types of jobs performed in the Thetsane industries. Table 4.1 outlines the different types of jobs performed by different types of workers in terms of gender differences (Males & females). It is found that female workers are sewing clothes (23%), cutting (10%), joining (10%), checking for faults (6%), counting (8%), ironing (9%) and receptionists (4%), laundry (10%) using chemicals to make the material soft and packing (8%) the product to be ready for export. Other female workers are cleaners (6%), while male workers are loaders and unloaders (6%). Most people are doing different jobs. Seventy (70) people are aged between 20-30, forty are aged between 30-40, while ten (10) are aged between 40-45. In Lesotho young people are employed at an early age which is illegal according to Labour code world wide. Again there is gender inequality because the population in factories is predominantly female (84%) while fewer population is male (36%).

Most people have **Matriculation qualifications** and they are skilled in sewing and cutting just because they did needle work at school as part of the curriculum. Most participants applied for this job because they want to earn their living and want to support their families as most of them are bread winners in the families and their husband were retrenched from the South Africa mines. Table 4.2 shows the level of education of the workers at Thetsane industrial estates.

**Table 4.2 Clothing and textile worker’s level of education**

| Grade                         | Males | Females |
|-------------------------------|-------|---------|
| Standard7/Grade 7             | 21    | 39      |
| Junior Certificate/Standard 9 | 9     | 26      |
| C.O.S.C/Matric                | 6     | 19      |
| Tertiary Education            | 0     | 0       |
| Total                         | 36    | 84      |

Workers at this area do not hold any tertiary qualifications. Workers have ‘O level’ qualifications while others dropped out of school because of financial problems. Workers as said earlier, are renting houses around Thetsane area. Participants are relying entirely on their salaries because they do not have time for other projects. Contracted employees have been working for more than two years while un-contracted people have one year or less of working experience. It is difficult to get the job because all the workers had to line up for at least a month to get the job or sometimes they had to **bribe** some supervisors to get the job.

Workers get training at least a month before starting a job. They are given a probation of a month before they are made contract workers. During their training they learn how to use industrial machines, how to cut and how to sew.

### 4.3 Employees' previous jobs

Table 6 below shows what previous jobs respondents occupied prior to engaging the textiles industry and their salaries then. This table also shows their salary in the new post in the textiles and clothing industry. The table also shows their level of remuneration. Whilst there was considerable variation in the wage levels for workers employed in other occupations prior to finding employment in the textile and clothing industry, it was astonishing to find that they all earned the same basic salary in the clothing and textile industry.

**Table 4.3 Previous jobs, previous salary and present industrial salary**

| <b>Previous jobs</b> | <b>salary in previous job in Rand (monthly)</b> | <b>Salary in industrial job in Rand (monthly)</b> |
|----------------------|---|---|
| Shop keepers         | 150   | 600   |
| Baby sitters         | 120   | 600   |
| House Keepers        | 100   | 600   |
| Hardware             | 200   | 600   |
| Mineworkers          | 1000  | 600   |
| Herdboys             | 800 per annum                                   | 600   |

Table 4.3 indicates that these employees are earning better wages in the clothing and textile industry than what they earned in their previous jobs. This is the basic salary of individual worker. This income is spent on different things such as food, education, clothing, housing and many more. Table 4.4 shows the employees average expenditure by particular item.

**Table 4.4 Employees' expenditure per month**

| <b>Items</b>                        | <b>Amount</b>                |
|-------------------------------------|------------------------------|
| Education                           | R90 per quarter              |
| Food                                | R200 per month               |
| Clothes                             | R300 per annum               |
| Transportation                      | R170 per month for commuters |
| Housing                             | R60 per month                |
| Entertainment                       | R20                          |
| Energy (electricity, paraffin, gas) | R20 for paraffin             |
| Funeral fund                        | R10 per month                |
| Community association               | R10 per month                |
| Savings                             | N/A                          |
| Loans                               | N/A                          |

Most workers did not previously hold employment and those who had were generally earning below three hundred Rand (R300) per month whilst in the clothing and textile industry they are earning six hundred Rand (R600) or more per month.

Item number one which is **Education** is paid for quarterly only by workers who have children at high schools or those whose children are doing class six to class seven at primary school because those grades are not covered by the free education system of Lesotho. Workers do not spend on the education of their younger children because their children are at Primary Schools and consequently the government is paying for this free education system from class one to class five.

Workers spend their money on **food**. They buy food for themselves, their children and their in-laws who are looking after children at their places of residence. Culturally, Basotho still have a strong bond with extended families, and in many cases the in-laws are looking after the children while the mother is working in the clothing industry.

Industrial workers are **renting houses** and come from all the districts of Lesotho. This means that they rented a house monthly. **Energy** is also an important monthly expense and in this case energy generally refers to paraffin. Low income people use paraffin for cooking because it is the cheapest fuel they can afford and very few (1 per cent) use gas. None of the workers are using electricity because they cannot afford to pay for electricity with the amount of money they are earning.

Transportation is another important monthly expense as workers staying far away from Maseru pay for **transportation**. Means of transport is easy because the road to this area is tarred. The transport sector, conveying workers to and from work, is by far the largest with 330 buses, coasters and taxis serving the Thetsane industrial area alone. As most taxis include a driver and fare collector, it is projected that up to 1,200 people are employed in the business of transporting the workforce into the industrial estate. To give an example of the scale of the taxi business, the 330 taxis averaged two trips to Thetsane in the morning. Each taxi holds 15 people paying two Rand per trip (local) and the trips are repeated in the evening. The daily expenditure on taxis into Thetsane alone is R40000.

Then they would also contribute typically R10 to **community association** per month. At the end of the year they either share the money or they buy groceries for Christmas. Some save this money for their children's school fees at the beginning of the year because they do not have savings at the banks as they have nothing to save at the bank and they do not take loans because they are considered as low wage people in the country.

Workers do buy **clothes** for themselves and for their children especially during Christmas time not every month. Most of the workers buy clothes seasonally either in winter or in summer during Christmas only. Apart from transportation, they also spend on **entertainment**.



#### **4.4 Trade Unions**

Most people were members of the union called the Lesotho Clothing and Allied Workers Union (LECAWU) the dominant union involved in organizing workers in the garment industry. It is constituted in terms of the Labor Code and is generally recognized by the GOL as the representative of Labor. LECAWU membership has started to grow as a result of a number of factors including the provisions of AGOA, client companies' Codes of Conduct and a growing maturity amongst industrialists with regard to their labour relation perceptions.

The Lesotho Labour Code of 1992 and its subsequent amendments form a body of comprehensive and competent legislation well able to protect the rights and well-being of workers in industry. The Department of Labour has been so inundated with labour disputes that it does not have the resources to cope. The results have been the general breakdown of many of the key aspects of the legislation to the detriment of the workers, the Code was designed to protect.

AGOA has created the opportunity for major expansion of the garment sector, but it also requires compliance with certain fundamental labour rights. It should be noted that this Act places the onus on the Government to protect workers rights while some industrialists believe it is the Government's responsibility to do exactly the opposite.

The Government has recently set up an Industrial Relations Council, the Directorate for Dispute Prevention and Resolution and the Labour Appeal Court with the enabling legislation. This important piece of legislation provides for the settling of labour disputes through the process of mediation, conciliation and arbitration. It effectively creates an independent authority that is representative of Government, employees and employers.

#### **4.5 Worker's Problems**

Whilst the clothing and textile industry provide employment, those working in these factories experience a number of problems. One of the workers' main problems relates to bad working condition. Nthabiseng, one of the interviewees, indicated that in winter,

heaters are not provided to employees. Toilets are not clean and this is unhealthy to employees. Another problem, which is a major concern was low wages. In Lesotho, each industrial employee gets R1000 only if they work overtime not as their basic salary. The basic salary ranges between R500-600 per month. Normally workers are given 2 hours of over time when need arise.

Apart from low wages, women are subject to sexual harassment by supervisors especially the new workers at the industry. Some female employees were forced to sleep with their supervisors to get and secure their jobs especially women working night shifts. This increases high rates of pregnancy and the spread of HIV/AIDS (Nthabiseng, 2002). Moreover, foreigners who own firms/industries (Chinese) kick workers if they are slow. Sometimes they insult (verbally) workers with the little Sesotho they know.

When people are desperately queuing for a month to get employment, it has happened that the supervisors responsible for hiring new workers demanded R500 per person as a bribe to get the job. Most people have paid that amount to get the job (Selloane, 2002).

#### **4.6 Ownership Structure of the textile industry in Lesotho**

Ownership and management of the garment industry is dominated by South East Asians who started to move into the country in the late 1980s. They now control in the region of 90 percent of the industry in Lesotho and employ 97 percent of the labour in the clothing and textile industry.

These industrialists operate in a global context, well able to service the requirements of the US market while sourcing their raw materials in the Far East. Many of them are subsidiaries of the public companies with sister plants in other garment manufacturing companies throughout the world. They are attracted to Lesotho by the success of the companies already operating there, the advantages accorded Lesotho as an LDC under AGOA, the low level of wages, an available, willing, well educated workforce, reasonable infrastructure, an enabling legislative environment and political stability.

It is found that employment in the industry grew by 56 percent in 2001. Further new start-ups and expansions are being processed and the upward trend in employment will continue. The industry is robust and continuing to grow strongly with exports of R1,8 billion in 2000 growing by 50 percent in 2001. The garment industry is export driven with the majority of garments exported to the USA, which absorbs 93 percent of Lesotho's production.

Globally the increased awareness of consumers, activists, foreign governments and international labour movements has focused attention on the working conditions in the third world countries. This has led to the development of Codes of Conduct by the larger international clothing brands. All Lesotho factories exporting to the USA must comply with these Codes of Conducts.

#### **4.7 Employer's views**

Seven employers were interviewed and five of them agreed to answer questions while two refused to answer at all because of language difficulties. Most employers have working experience ranging between one and twelve years. They are gender biased when hiring people because they prefer females to males. The age preference is between twenty-one (21-35) and thirty-five. They prefer females because they have skills needed such as sewing and cutting. So this saves industrialists time in terms of training and they save money because they are not going to spend anything on training, but salary is the same regardless of skill or no skill.

Thatsane industrialists do train people for three months before employing them. Industrialists interpreted skilled/trained labour as those who have gone under their training and those who have certain skills related to job offers prior to training. Most people are paid only when they have passed training and their basic salary is R600 while management staff earn between R800 to R1500 monthly.

Their promotions are based only on working ability. Most workers are granted benefits such as weekly, monthly and end of year bonuses. More often than not, workers work overtime with the hope of getting more at the end of the month.

Employers encouraged workers to join any union and they have full rights to join any. In this case most workers have joined LECAWE and it is working well with the industrial management.

Most factories work according to production targets. This is how they perform:

Daily: 400- 600 pieces. This means workers are supposed to produce between 400 and 600 finished products. If they are producing T-shirts, they have to produce that number of T-shirts a day.

All industrialists interviewed believed that their companies/factories contribute a lot to Lesotho's economy because they are providing jobs to many local people and this also works towards poverty reduction in Lesotho. They are of the opinion that the increasing level of employment in Lesotho is introducing significant amounts of money into the economy on a monthly basis. The garment industries, being for the most part CMT operations, do not make or declare significant profits in Lesotho. A few industrialists did rate the low rate of company taxation as a benefit, however, they believed that they were not making profits due to the stronger Rand, so the companies are experiencing huge losses because of exportation of all goods. On the other hand, some believed that they do make minimal profits because of AGOA opportunities, but did not want to disclose figures. The Commissioner of Income Tax confirmed that the collection of Company profits from the garment industry was minimal. The main contribution to the economy is in wages paid.

#### 4.8. Utilities

Industrialists agreed that the provision of utilities had improved in recent years. While dissatisfaction with the performance of Lesotho Electricity Corporation (LEC) was high, this mostly related to billing and administration problems. Industrialists spoke of not receiving electricity bills for months and then having their power supply cut for non-payment. Table 4.5 shows utility and problems with billing.

**Table 4.5: Utility and Problems with Billing**

| <b>Utility</b>     | <b>Problems with Billing or Supply</b> |
|--------------------|--|
| Electricity        | 73%                                    |
| Water              | 41%                                    |
| Telecommunications | 59%                                    |

Problems with Water and Sewerage Authority (WASA) were mostly related to insufficient or erratic supply. Those industries with no laundry facilities tended to report satisfaction with WASA while the wet industries were almost universally dissatisfied. There are major problems with the supply of water to the industries and disposal of industrial effluent and further expansion of the industry will only compound the problems unless they are addressed with a degree of urgency.

Many industries are having problems with their telecommunications and in particular with land-lines. All industrialists now use cell phones as back up. While some are using Lesotho-based cells, many use South African ones with loss of revenue to the Lesotho provider. The telecommunications provider, Tele-Com Lesotho (Pty) Ltd has recently been privatized with the GoL retaining a 30 percent share holding. The new company is aware of the problems that exist both in terms of its staffing structures and has been actively planning the upgrading of services. The professional experience of the partners in Tele-Com should result in significant improvements in this utility.

In response to the extensive utility requirements of the new denim mill and the ancillary development that this will bring, the GoL, through the MITM, established a task force to

co-ordinate the provision of additional utility capacity to the Thetsane Industrial Estate. The members of the task force are drawn from all involved sectors of Government, the LNDC and utility providers. The group meets on a weekly basis to ensure the timely upgrading of utility capacity to the site. The budget for upgrading of utilities in 2001 was M54 million and a similar amount was also spent in 2002. As part of this process a new water reservoir has been built in Maseru that will enhance the supply to Thetsane.

#### **4.9 Environment**

The Textile sector anticipates using over one third of the water available to Maseru. Local residents are very concerned about this issue as they claim that they have waited a long time for improved access to water. The sector does not anticipate recycling its water and this lead to using a very large quantity of water. Most of the water used and the pollution caused by the Lesotho garment sector occur at Thetsane Estate.

Solid wastes generated by the garment sector factories are generally burnt. This burning is a waste of resources. Solid waste could be recycled into other products provided an efficient system is put in place. For waste recycling to become viable, current restrictive measures should be considered. Burning should be prohibited and the wastes made available to others for recycling into alternative products as seen in Table 4.6 below.

**Table 4.6 Environmental Impacts Associated with Lesotho Garment Sector**

| No | Impact   | Cause   | Rating   |
|----|--|---|--|
| 1  | Reduction in water flows in the Caledon River  | Abstraction of relatively large amounts of water from the Caledon river                           | High (Reduces flow rates and apparently no permit for abstraction)   |
| 2  | Reducing the amount of water that could be made available to people living in Maseru | Abstraction of relatively large amounts of water from the Caledon River                           | Medium (it is a government decision to allocate resources, but there is strong local concern about preference being given to the textile sector)                               |
| 3  | Pollution of local water & of international boundary river with South Africa.        | Discharge of untreated effluents into the water course, which then runs into Caledon river        | High (this practice is against all norms and will become illegal in Lesotho)   |
| 4  | Pollution of air near people.  | Burning of wastes at the factory and at the “recycling” company and the municipal waste tip site. | Medium (the quantities are small but it is illegal and black smoke (smog) can be seen. Smouldering occurs at the municipal site, but this is also as a result of other wastes) |

Owing to the environmental impacts associated with effluents from textile factories, standards are usually set for their discharges and in developed countries heavy fines are imposed for breaches of these limits. The “polluter pays” principle is applied. However, this is not yet the case in Lesotho.

Mitigation measures impacts, if not correctly mitigated and managed, can be a risk to the company. The main threats to the Lesotho Garment sector, arising from current environment impacts are that of over consumption of water and the discharging of untreated toxic effluent into watercourses against local requirements. The toxic effluent

action poses a serious risk to the industries in this sector as it could result in boycotts of their products if this knowledge becomes widely known to their consumers.

#### **4.10 Training**

The Lesotho Garment Center (LGC) is the only significant training center specifically targeting the formal industrial garment sector in Lesotho. The LGC project was initiated with the express purpose of training entrepreneurs in the management of industrial garment production in anticipation of them participating in the industry through the opportunities presented by AGOA. While the LGC succeeded in training hundreds of machinists, its primary aim of launching entrepreneurs into the formal garment sector was not successful.

It has also shown the formidable cost of training machinists outside of a commercial factory situation. The LGC experience indicates that training centers of this type is unlikely to achieve any degree of sustainability.

There are several other training establishments such as the Lerotholi Polytechnic and the Institute of Development Management (IDM) that offer a range of generic management and general studies but none is tailored to the needs of the formal garment sector. Lerotholi Polytechnic offers two-year courses but the focus is on design, pattern construction and tailoring. The Commercial Training Institute (CTI) offers similar courses that lead to the award of a certificate in Tailoring and Dressmaking. The Basotho Enterprise Development Corporation (BEDCO) also runs a series of short courses, which includes marketing skills and they are looking towards the future to focus on the needs of the garment industry.

St. Luke's Mission in Maputsoe offers a three year course providing students with a range of skills including pattern construction, machine knitting, small business studies, leadership, management skills and industrial garment production on the appropriate machinery. Many of these students are employed in the local craft industry often in their own enterprises on completion of the course.



Practically all the factories have some form of training for machinists and other skills such as cutting and pressing. In most cases there is a training line where new recruits are taught the basic skills of machine operation. For the most part trainees are taught single machine skills and are not cross-trained. The majority of managers interviewed claimed that they did not see a major need for a machinist training school.

By contrast most of the factories acknowledged the need for supervisory training and indicated that they were prepared to pay for it. Those interviewed confirmed that they would support training programmes that addressed their particular sector needs if they were delivered in a way that minimized employees' time spent away from their workplace. Only one of the companies visited has developed a supervisory training course and is delivering it "in-house" using its own staff. It started the programme recently and it is too soon to assess its effectiveness. Training covers the full range of topics from organization and planning to industrial relations and health and safety. The reasons given for developing their own programme was that no such course was available locally and they had concerns about both the quality of delivery and of training materials provided by third parties.

In order to empower Basotho working in the industry it is vital that they receive appropriate training. This training needs to develop from within the industry rather than be structured outside of it, as is the case in the LGC model.

The following areas were identified as critical for the long-term stability of the industry and which will contribute strongly to maintaining cost-competitiveness and industrialists peace. Employers outlined the following:

- Supervisory management training;
- Workforce induction training;
- Expatriate induction into Lesotho's Labour Code and Basotho culture;
- Industrial relations training for personnel;
- Technical/mechanical training; and

- Industry specific computer training.

In the garment manufacturing industry the role of supervisory management is key to a company's performance since the supervisors directly influence the level of productivity and quality. In the companies visited it was obvious that there was a lack of relevant management skills in Lesotho. This is borne out by the large number of expatriates in supervisory management and other senior positions.

It is vital that Basotho supervisors are adequately trained in order that they may ultimately take on more responsible management positions within their companies and relieve the need to import expatriate supervisors and managers. Well-trained and experienced supervisor provide the best chance for Basotho to set up their own independent enterprises. A number of the factories visited are owned or operated by expatriates who originally came into the region as factory supervisors.

Most of the equipment used in garment manufacturing is fairly basic. There are significant numbers of Basotho employed as mechanics but they are learning their skills by watching expatriates as there are no formal training courses available to them. Some of the factories have sophisticated computerized sewing and laundry equipment. Expatriate mechanics are responsible for the maintenance of these more complex machines and computer controlled equipment.

The entire training process should be "owned" by the industry. Should the industry successfully establish a representative association, then that association should be encouraged, with the assistance of the donor community, to establish a Productivity and Training Institute.

#### **4.11 Productivity**

It is believed that operator productivity within the industry is generally low. This is principally due to deficient recruitment policies, inadequately trained operators, poor supervisory management, communication difficulties and cross-cultural misunderstanding. In most cases where inefficiencies exist on the sewing lines, the

management response is to allocate more machinists to the problem rather than using modern manufacturing efficiency techniques. This results in the use of more manpower than necessary, which adversely affects cost competitiveness and maintains the culture of low wages.

Training including work-place layout and advanced work-handling techniques such as Optimal Sewing Methods would lead to significant improvements in productivity. Development of their knowledge of Work Measurement would improve target setting and also identify the causes of “lost time”.

The Lesotho Review (2002) indicates that there is considerable resentment over target setting in the factories. More Basotho need to be involved in the process in order for them to be in a position to communicate the mechanism of target setting to the workers.

There is lack of the skills required in maintaining sophisticated technical equipment in Lesotho. This has restricted investment in labour saving machinery. This limits a company’s ability to increase production efficiency through the use of modern technology.

#### **4.12 Customs Regulations**

The integrity and independence of the Customs Service is a prerequisite for any exporting economy. In recent years the Lesotho Customs Service has made enormous strides in the enhancement and training of its staff to meet the requirements of increased imports under rebate, and exports under the AGOA Visa scheme. All the Maseru based industrialists involved in exports stated that they had no problems with the Customs Service other than the fact that they had no transport supply for Customs officers to visit their plants for inspections.

The Customs Service has refused rebate facilities to companies who are not exclusively producing for export. On the other hand, there are companies that manufacture for both

the South African market and for export which have been granted rebate facilities. So some degree of abnormality exists.

In certain factories Customs requires that waste and off-cuts of rebated fabric be weighed before being destroyed for the purposes of balancing imports in the rebate records. In other factories this provision is not required. It would make sense if a certain percentage of waste fabric was allowed and that this percentage could be disposed of free of duty. This would remove the need for the inspection of waste, allow industrialists to recover some of their losses on waste and create a cheap source of raw materials for the informal garment and related industries.

#### **4.13 Industrial relations, perceptions and public relations**

The loss of production through industrial unrest is an anathema to any industrialist. This is particularly the case in the Lesotho Garment industry where the meeting of delivery dates is critical to the acceptance of orders and the ongoing flow of future orders. Many industrialists stressed that, post September 2001, some buyers were looking for excuses to reject orders and late delivery is a prime reason for doing this. The pioneer clothing factories set up in Lesotho by South African companies in the 1980s were, for the most part, subsidiaries of large groups with well developed personnel policies and procedures. They negotiated recognition agreements with the trade union and, through their collective association, negotiated wage increases on an annual basis. Both the LNDC and the Department of Labour participated in these negotiations. While negotiations were frequently difficult and protracted, they inevitably resulted in equitable increases for workers in the area.

The immediate effect of protracted negotiations was that all the industrialists involved became accustomed to meeting with their opposite numbers in the trade union. Over the years a culture developed of dealing with the trade union even amongst those firms where the trade union did not hold a majority of membership.

The arrival of South East Asian garment factories changed the face of labour relations in Lesotho. These industrialists arrived with a patently different work ethic and an enormous communication barrier. From the outset rumours and innuendo started to circulate about the working conditions in these factories. These rumours were difficult to verify and the industrialists themselves did not appear to bother to repudiate them.

A perception developed that these factories were above the law and that the Government Departments were powerless to force them to adhere to minimum requirements of the Labour Code. It is likely that in certain factories unacceptable work practices were prevalent. Part of the problem appears to be the common use of Chinese and other South East Asian supervision. The management, unable to communicate effectively with the workers, has placed line responsibility almost exclusively in the hands of Chinese supervisors. These supervisors, while able to understand the requirements of production as laid down by their seniors, were invariably not able to communicate the urgency effectively to the Basotho staff under their control. This resulted in frustration, aggression and punishment in a manner that is contrary to acceptable standards in Lesotho.

In general the Chinese supervisors appear to have been recruited from garment workers who have come up through the ranks of the garment industry in China. While skilled in garment sewing and construction, many of them would have had no training in supervisory skills or motivational techniques. The communication and cultural barriers in line with the management/supervision acts as a barrier to effective team building and works against the achievement of acceptable levels of staff motivation and productivity.

Compounding the problem is the high degree of secrecy and dislike of interference that pervades most of the industry in Lesotho. It was extremely difficult to gain access to many of the factories for the purpose of this study. Many of the industrialists have the attitude that they wish to operate without interference, that they are providing jobs for the people of Lesotho and they should be left alone to get on with what they do best. This attitude has a negative impact on the Basotho perceptions of the industry. The industry is seen as exploitative and dehumanizing with very little benefit to the Lesotho economy.

Unfortunately none of the industrialists seems to be interested in countering this negative perception despite the effect it has on industrial relations.

Of all the factories interviewed only two have any formal recruitment procedures. In general, staff members were recruited on a first-come first served basis or to fill specific skill requirements. Workers are only tested for sewing skills or hired on a probationary basis. Testing for literacy, numeracy or dexterity is simply not done, no training records are kept and in most cases only very basic records are kept of employees. Unstructured recruitment leads to accusations of favoritism, the possibility of bribes, uninformed selection of potential supervisors and ultimately, poor industrial relations.

One of the cornerstones of a sound industrial relations environment is that participants should be fully informed. It is apparent that neither the workers are properly informed about their rights and obligations, nor are the majority of the expatriate supervisors informed about the provisions of the Lesotho Labour Code or about Basotho culture generally.

Only one factory has a staff induction programme. All others leave the task of informing new recruits of personnel policies and procedures to supervisors. This invariably leads to inconsistent and inadequate information. It is glaringly obvious that most workers are unaware of their rights, entitlements, and obligations. It would appear that the trade union has also not been particularly instructive in this regard. It is interesting that the perceived working conditions are often far worse than reality. There is a perception that some workers start at 7:00 a.m. and do not finish until 9:00 p.m. Some workers get no time off at all and work seven days a week.

#### **4.14 Conclusion**

Local people in Lesotho are employed in the garment sector and this contributed to the economy of Lesotho through wages. As a result, it also helps in the poverty reduction in the country. It looks like there are many problems with this industry in relation to Basotho

perceptions and these problems need to be addressed by the government to settle matters to satisfy both employers and employees.

However, Lesotho is benefiting from this industry through AGOA. It is AGOA that is currently driving the unprecedented growth in the industrial garment sector in Lesotho. Many of the established companies have recently completed significant expansions resulting in major growth in employment in the sector. There are a number of companies that have expressed an interest in locating in Lesotho with potential employment of 8,500 workers that are awaiting the provision of factory buildings. There are also two existing projects that are awaiting expansion of their factories with the potential to create 600 new jobs. Again there are about five companies that have also expressed an interest in constructing their own buildings with the potential of 3,500 new jobs.

This implies that the economic development of Lesotho is improving by these textile industries being located in the country. The next chapter concentrates on the conclusion and recommendations that flow from this investigation.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This Chapter revisits the aims of the research that are outlined in Chapter one. Both the limitations and strengths of the applied methods are briefly discussed followed by the concluding statement. Lastly, the recommendations flowing from the research are presented.

#### 5.2 Revisiting the aims of the research

The aims of this research, as indicated in Chapter One, are as follows:

- *To analyze the context of the textile and clothing sector at Thetsane in Maseru, as a local economic development stimulus as well as its functions in the global economy.*

The textile industry was chosen as a sector of special interest as it has grown at an extraordinary pace over the past few years in Maseru, as well as the whole of Lesotho and is now the largest private sector employer sector in Lesotho. As the industry represents an economic activity showing significant and consistent growth in terms of employment generation and exports, it is already making a contribution in the economy of Lesotho and also contributes to poverty alleviation. Apart from this it is a major contributor to Lesotho's economy, as agriculture has depreciated in value.

In areas where textile industries are built, there are many developments taking place such as tarred road construction to access some areas around the industries, major services are provided such as schools for workers' children, communication (public telephones), supermarkets, bars, police stations, hardware stores and many more.

- *To evaluate the importance of the textile industry to Lesotho in terms of income to the country and the employment generated through textile and clothing production.*



The findings of this research indicate that the country earned R1,8 billion from textile exports in 2000 and grew by 50 percent in 2001 as illustrated in Chapter Five. This contributed largely to the country's economy. Employees in the textile industry at the Thetsane area in Maseru are earning a basic monthly salary of at least R600, in accordance with the Lesotho and International Labour Code. This industry has generated employment for 50,000 Basotho as shown in Chapters Four and Five. This is vital to those employed because they manage to obtain basic needs like food, housing, education for their children and so forth.

- *To describe how the textile industry developed in Lesotho as a whole, but particularly at Thetsane, and describe what the spatial distribution and temporal development of this industry.*

In Chapter Four, the temporal development of this industry was discussed. It was shown that many of these industries developed in the 1990s, and employed a large labour force. Further development of clothing and textile factories took place in 2000 after the 1998 political riots in Lesotho. The key reason for this development was because industrialists were exploiting opportunities presented by the AGOA agreement. This opportunity generated 60 percent of Basotho employment and is still continuing to generate further employment opportunities.

However, there is now a job crisis in textile factories in Lesotho. Foreign employers in the textile industry have begun deserting Lesotho since the beginning of 2005. "The closure of the firms has shocked us as government and we are working hard to find solutions" said Mr. Malie at a press conference. He said that more than 12,000 textile and clothing factory workers from more than 25 local textile and clothing factories had lost their jobs since June 2004. The phasing out of the Multi-Fibre Agreement at the beginning of 2005 has further had an adverse impact on the output of this country. Lesotho is facing fierce competition from lower cost producers such as India, China and Pakistan. The situation is not going to affect textile factory workers and owners alone but has already affected the general economy of Lesotho.

- *To relate textile and clothing industry development in terms of the factories and employment, to the attainment of broader local economic goals in Maseru.*

In the Thetsane industrial area, there are many developments taking place such as small businesses and fruit and vegetable markets directly linked to the clothing and textile industry. Services provided in this area are to the benefit of employees who get services very close to them. It contributes significantly because earnings of employees are spent in Maseru.

### **5.3 Strengths and limitations of the study**

In this section strengths and limitations of collecting data are discussed. In spite of the limitation, the aims of the study were achieved. The advantage of being a native speaker in the area where the research was done played a major role in finding and obtaining the information. Living among people working in this area also played an important part in the collection of data. Being a native speaker of Sesotho made it easy for the researcher to obtain information. Expatriate supervisors (Chinese) were neither English nor Sesotho speakers and this hampered getting the information from them. Three supervisors refused to be interviewed or to complete the employers questionnaire. Some employers refused to participate.

It was difficult to get information from the government offices but private sector offices were willing to help and provide information. This topic is not fully researched because there were many changes that took place years after the survey. The survey took place in 2002. So it will be highly constructive if another survey could be taken at higher levels to exhaust the topic.

## **5.4 Conclusions and Recommendations**

### **5.4.1 Conclusion**

The textile industry is the largest private sector employer and makes a contribution of about 50 percent to Lesotho's GNP. The competition to attract garment industries wishing to take advantage of AGOA will grow as more countries are accredited under the scheme. It is important for Lesotho to ensure that it urgently attends to its infrastructural problems such as roads, and air connections if it wishes to continue to compete. It is projected that growth in gross domestic product (GDP) have reached 3.4 percent in 2004. The economic performance began well in 2004 and by mid-year indicators were that the year would turn out as expected. The last half of the year, however, registered a significant down-turn, driven largely by uncertainty in the textile sector (Thahane, 2005). The down-turn and uncertainty emanated from these causes.

Firstly, the uncertainty of the extension of AGOA by the United States congress, secondly, the imminent removal of textile quotas under the Multi-fibre Agreement on Textiles and Clothing affected United States orders for Lesotho produced clothes, and thirdly, the consistently weak United State currency created an unfavorable imbalance between the costs of production which are paid for in local currency and the revenue from sales which is received in United States dollars.

All these factors have led to a wait-and-see attitude by both United States buyers and Lesotho producers. As a result, production slowed somewhat during the last half of 2004 and this has been reflected in a significant decline in economic growth (Thahane, 2005:4). Thahane (2005) also points out that world economies are undergoing major transformation which normally comes with costs. The textile sector on which Lesotho showed exceptional acumen in tapping the North American market is seeing most of its trade benefits being eroded. The quotas are gone, and in the near future the tariffs will almost disappear, leading finally to a fully competitive system among clothing and textile producers. Whether Lesotho will be able to compete successfully will be a function of the

extent of the flexibility with which industry leaders and labour markets respond to adjustments taking place in the sector.

The loss of export orders because of exchange rate fluctuations and the uncertainty arising from the delayed approval of the extension of AGOA by the United State Senate creates further vulnerabilities in terms of employment creation and poverty eradication. Thahane (2005) points out that a small number of firms closed due to cash flow problems but most of the large ones remain and continue to maintain their employment levels. The Government is determined to retain these investors, attract new ones, as well as diversify its export products and markets.

The HIV/AIDS problem is increasing in Lesotho and the industry is faced with the spectre of increasing absenteeism and deaths amongst the workforce. The industry provides education on HIV/AIDS to industry employees. By acting proactively the industry can assist in the prevention and mitigation of the disease. By ignoring the problem the industry may find itself blamed for the increase in factory deaths that will inevitably occur.

However, local economic development is seen to exist in a number of forms and at a range of levels; it must be stressed that, as a result of financial skill and resources constraints, not all places around this area will achieve their local economic development objectives. On the other hand, local economic development plays a role of creating employment and community empowerment. This research has, therefore, served to illustrate the potential of the clothing and textile industry for other areas and to initiate a similar process in other industrial estates in order to improve local economic development. In light of the findings of this investigation a number of recommendations can be made for future improvements concerning the textile industry and local economic development nexus.

#### **5.4.2 Recommendations**

What the study has done is to raise some of the major issues arising from the development of the textile industry and its impact on local economic development in the area. However, from what has been found in the study, and for a more participatory and employment maximizing textile industry at Thetsane area, this study recommends the following:

Firstly, the Lesotho Government should promote foreign direct investment (FDI) by establishing a Cabinet Sub-Committee on industrialization, to deliberate on industrial expansion proposals, the development of new industrial estates, provision of infrastructure and environmental adherence. FDI in Lesotho is amongst the highest in the region in per capita.

Secondly, the textile industry in Lesotho is export driven with the majority exported to the USA under the African Growth and Opportunity Act (AGOA). Apart from the U.S. markets, Lesotho made products duty-free and quota-free access to the European Union market under the Cotonou Agreement and into the Customs Union region. There is also the untapped SADC market that offers trade preferences. It is recommended that Lesotho should work very hard to develop its textile industry and maintain that standard because it has recently become Africa's largest exporter of clothing to the United States of America since AGOA is been the dominant driving force behind the growth of the garment sub-sector.

Thirdly, Lesotho has made commendable progress in the last five years in alleviating poverty. However, it needs to do much more to become part of the global supply chain if its textile industry is to remain and indeed increase its significant contribution to employment generation and economic development.

Fourthly, it is recommended that the textile sector industrialists, with the help of the Lesotho Government, establish a garment industry Productivity and Training Institute.

The primary aim of this Institute will be to maintain and enhance the cost competitiveness of the industry. Again, it is recommended that the textile sector industrialists take immediate steps to ensure that all expatriate staff are adequately inducted into the provision of the Labour Code and Basotho Culture.

Finally, it is recommended that the Trade Unions participate in negotiation on the Programme for Prosperity and Industrial Peace. Also, they should advise and train their shop stewards and members with regard to their rights and obligations in terms of the Labour Code.

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Appendix 1

**EMPLOYEES INTERVIEW**

1. Job (title)

-----

2. Age

-----

3. Gender

-----

4. Place of residence

-----

5. What were your previous jobs?

(a) -----

(b) -----

(c) -----

(d) Others ( please specify Dates)-----

(e) Where is the previous job located?

-----

(f) How much did you earn per month in your previous job?

-----

(g) How much are you earning now?

-----

6. On what items do you spend your money?

(a) Education

- (b) Food
- (c) Clothes
- (d) Housing
- (e) Energy (Electricity, Paraffin, Gas)
- (f) Entertainment (specify kind)
- (g) Savings
- (h) Funeral fund
- (i) Community associations
- (j) Loans
- (k) Transportation

7. What are your educational qualifications?

-----

8. What are your training experiences?

-----

9. Why did you apply for this job?

-----

10. Where do you live now?

-----

11. Do you have young children?

Yes-----

No-----

12. Where do they live?

-----

13. Do you have any income other than your monthly salary?

Yes-----

No-----

16. If yes, how much?

-----

17. How long have you worked here? -----

18. How many people do you support on your income (dependents)?

-----

19. Where do they live?

-----

20. How do they earn their living?

-----

21. Does your family have another breadwinner(s)?

Yes-----

No-----

22. What do they (breadwinners) do?

-----

23. How much do they earn?

-----

24. How did you get this job?

-----

25. Did you get any training here for this job?

Yes-----

No-----

26. If yes, which training?

-----

27. Are you a member of any workers union or association?

Yes-----

No-----

28. If yes which union?

-----

29. How does it work?

-----

30. What do you like about this job?

-----

31. What do you not like about this job? -----

-----

-----

32. Is there any job security?

-----

Thank you for your time and contribution.

## Appendix 2

### EMPLOYER'S QUESTIONNAIRE

1 When did the factory start?

---

2 What do you manufacture?

---

3 Does the factory have a holding company?

Yes \_\_\_\_\_

No \_\_\_\_\_

4 If so, where is it located?

(a) Lesotho

(b) South Africa

(c) Elsewhere, please specify \_\_\_\_\_

5 How long have been working for this factory (your experiences)?

---

6 When employing people what gender (sex) do you consider most desirable?

---

7 When employing people what age group do you consider most desirable?

---

8 Which skills are most important for your business?

(a) \_\_\_\_\_

(b) \_\_\_\_\_

© \_\_\_\_\_

(d) \_\_\_\_\_

9 Do you train people?

Yes \_\_\_\_\_

No \_\_\_\_\_

10 What do you interpret as skilled/trained labour?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

11 What do you interpret as unskilled/untrained labour?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

12 Explain the wage structure of your company for

(a) Skilled/trained labour

\_\_\_\_\_  
\_\_\_\_\_

(b) Unskilled/untrained labour

\_\_\_\_\_  
\_\_\_\_\_

(c) Management labour/administrative labour

\_\_\_\_\_  
\_\_\_\_\_

13 For how long will unskilled/untrained people earn that wage?

\_\_\_\_\_



14 For how long will skilled/trained people earn that wage?

---

15 Do you have a Promotion structure for skilled/trained labour?

Yes\_\_\_\_\_

No\_\_\_\_\_

16 Do you have a promotion structure for unskilled/untrained labour/

Yes\_\_\_\_\_

No\_\_\_\_\_

17 How does the promotion structure work for skilled/trained labour?

---

---

18 How does the promotion structure work for unskilled/untrained labour?

---

---

19 Are there benefits for your employees?

Yes\_\_\_\_\_

No\_\_\_\_\_

20 What are the benefits for skilled/trained labour?

---

---

21 What are the benefits for unskilled/untrained labour?

---

---

22 Is unionisation benefiting your company?

Yes\_\_\_\_\_

No\_\_\_\_\_

23 Is unionisation benefiting your employees?

Yes\_\_\_\_\_

No\_\_\_\_\_

24 Which Union do you encourage your employees to join?

---

25 Give reasons for the answer in (24)

---

---

26 More often than not people working at the factories were on strikes, Why?

---

27 Factories work according to production targets, what's your company's target production

i. Daily\_\_\_\_\_

ii. Weekly\_\_\_\_\_

iii. Monthly\_\_\_\_\_

iv. Annually\_\_\_\_\_

28 Where are the materials/inputs from?

(i) Lesotho (specify what kind of the inputs)

---

---

(ii) South Africa (specify kind)

---

---

(iii) Elsewhere, specify country and kind of inputs

---

---

29 What's your factories production per employee?

---

30 Where are your markets?

i. Locally\_\_\_\_\_

ii. International (specify countries)\_\_\_\_\_

31 What do you think is your company's contribution to Lesotho's economy?

---

---

---

32 Is your factory making profit?

Yes\_\_\_\_\_

No\_\_\_\_\_

33 If so, how much?

---

Thank you for your time and contribution.