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FDI, AGOA and Manufactured Exports by a Landlocked, Least Developed African Economy: Lesotho

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†This paper was accepted for publication before Sanjaya Lall's untimely death in June 2005. In addition to his well-known contributions to development studies, Sanjaya was a valuable resource for The Journal of Development Studies as a conscientious and insightful referee. He will be sorely missed by friends and colleagues.

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The water supply in Lesotho is highly seasonal (Lesotho's rainfall is highly seasonal and cannot be stored for use during the dry season). This has led to a chronic water shortage in Lesotho, particularly in the rural areas. The government has invested in a large dam project and now has a large reservoir of water. However, the country is still facing water shortages nearly every year. This is due to a number of factors, including the fact that the country is landlocked and its access to the sea is limited. It is also due to the fact that the country's infrastructure is not well developed. This means that it is difficult to transport water from the reservoir to the rural areas. Its access to the sea is limited. It is also due to the fact that the country's infrastructure is not well developed. This means that it is difficult to transport water from the reservoir to the rural areas.

Calculating the impact of the dam project on the manufacturing sector is a complex task. The dam project has a number of potential benefits for the manufacturing sector. The most important of these is that it will provide a reliable source of water for the manufacturing sector. This is important because the manufacturing sector is highly dependent on water. The dam project will also provide a source of electricity, which will be used by the manufacturing sector. Its earlier studies have shown that the manufacturing sector is a key sector for the country's economic growth. Conventio... [2003].



The AGOA definition is different from that of 'LDCs' in the UN and covers more countries. The AGOA definition includes as Lesser Developed Beneficiary Countries 42 countries (Africa apart from Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia, Seychelles and South Africa). The definition was later broadened to include Botswana and Namibia. See the AGOA website at http://www.agoa.gov/eligibility/apparel_eligibility.html.

However, the US Congress is currently (May, 2004) considering the extension of AGOA from 2008 to 2015, and the extension of third country fabric sourcing (below) from 2004 to 2007 [[Ilungole, 2004](#)].

Garment manufacture is of the simplest variety, using imported fabrics to sew products to buyers' designs the lowest quality segments [[Salm et al. 2002](#)]. According to [US ITC \(2004\)](#), 'production consists almost entirely of basic trousers, particularly denim blue jeans, and knit tops such as T-shirts'. (K-13). In 2001, total capacity was estimated at 21 million pairs of trousers and 35 million knitted shirts.

Apart from the garment plants, there are three South African companies in footwear and four South African electrical/electronic firms, all assembling components aimed at their home market. There are four food-processing firms (two South African, one US and one Chinese). Finally, there is an assortment of six foreign owned plastic, umbrella and other manufacturing firms

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The 'Starting-a-Business' indicator has five components: number of procedures, time, cost in dollars, cost as percentage of per capita income and minimum capital requirements as a percentage of per capita income. Countries that do worse in terms of time taken include large FDI recipients like Brazil, Botswana, Indonesia, Spain and Venezuela [World Bank, [2004](#) b].

The four indices here are 'flexibility of hiring', 'conditions of employment', 'flexibility of firing', and 'employment laws'. Countries with worst scores in flexibility of hiring include Argentina, Brazil, Finland, France, Germany, Indonesia, Italy, Mexico, Pakistan, Portugal, Spain, Taiwan, Thailand and Venezuela.

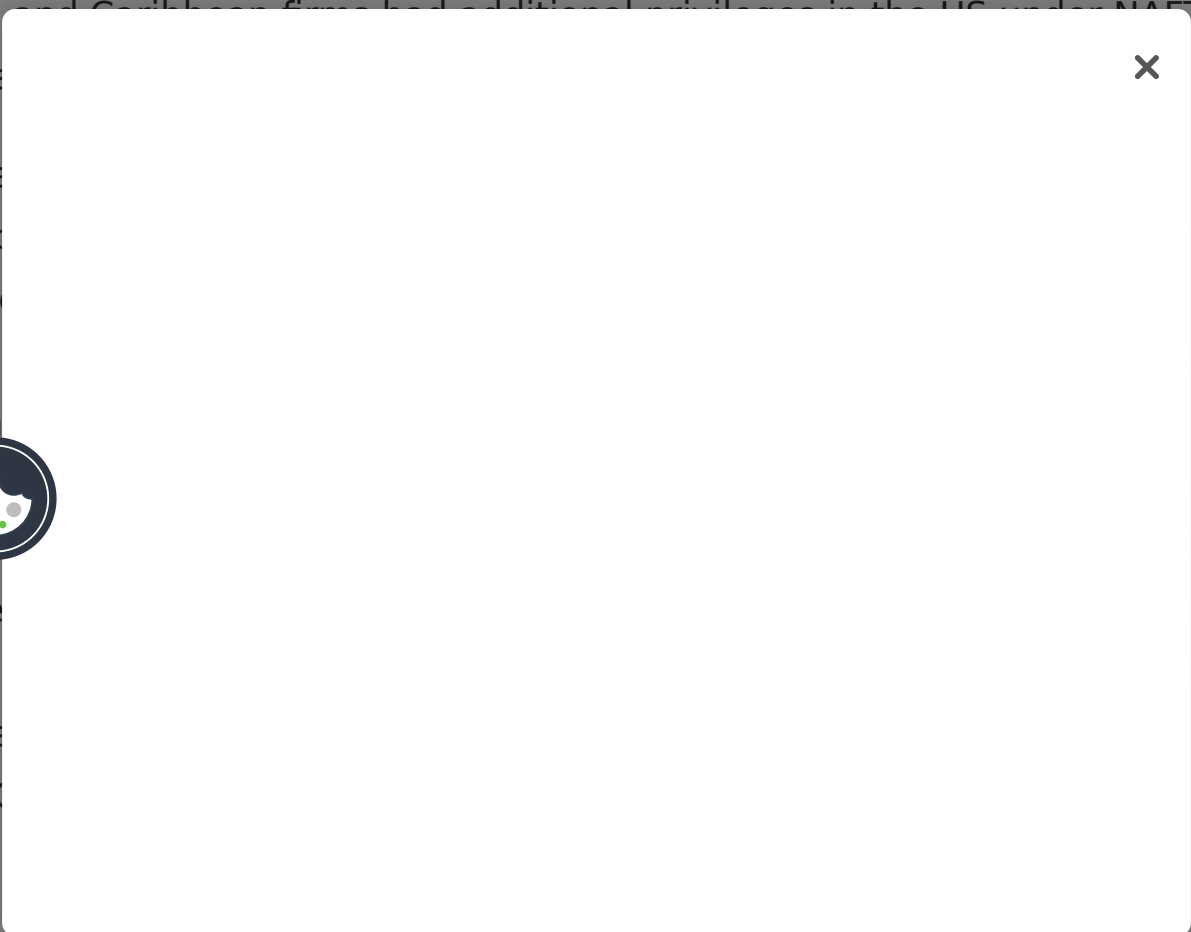
UNCTAD [[2003](#)] commends Lesotho's labour policy and administration as a model for other countries.

Data from Central Bank of Lesotho [[2002](#)] converted at current exchange rates.

However, it is impossible to calculate Lesotho's share in AGOA textile and apparel imports by the US because the totals for the leading five African exporters add up to over 100 per cent of the totals shown in the US ITC data for 2001-2003 (reaching 254 per cent in 2001, 126 per cent in 2002 and 110 per cent in 2003). I therefore use total textile and apparel imports by the US in these years to derive export market shares.

Mexican and Caribbean firms had additional privileges in the US under NAFTA and the Caribbean

Mattoo et al. (2004) found that while market access to the US was liberalised under the FTAs, it was narrower than under other FTAs. The US's GSP privileges were reduced for apparel and textiles. In 2000, AGOA gave Lesotho more preferential tariff lines on agricultural and mineral exports than any other country in the world, more than 100 off earlier, and 100 off lines on mineral exports. This was a significant improvement over protection



AGOA is intended to promote use of US inputs, expensive as they are. Apparel made with African fabric and yarn is subject to a cap of 1.5 per cent of US imports, growing to 3.5 per cent by 2008. A recent law has further raised the cap to 7 per cent, while apparel made with US yarn and fabric is not capped. The cap on African inputs is, however, unlikely to constrain exports, since the values below the cap are very large (\$4.2 billion with the 3.5 per cent cap and \$7 billion with the 7 per cent cap), compared to present exports (\$514 million in 2002). In 2001, China exported \$36 billion of clothing. According to Gherzi, a leading Swiss textile consultant, the share of China and India in clothing exports will rise from 22 per cent in 2001 to 33 per cent by 2006. See page 6 of Gherzi [[2003](#)].

Textile firms in South Africa are highly protected by common SACU tariffs and the extensive use of anti-dumping measures by the South African government [[Roberts and Thoburn, 2004](#) ; [World Bank, 2003](#)]. This may hold back the speed of its upgrading.

This is based on information provided by apparel producers in Lesotho and by Salm et al. [[2002](#)]. It is supported by Mattoo et al. [[2003](#)].

I am grateful to the journal referee for this valuable insight.

According to Salm et al. [[2002](#) : 41], 'Of the workers interviewed for this survey 66 per cent were either very negative or quite negative towards the company they work for,

while only 10 per cent were positive. This is not so bad as it might seem, given that the industry is so bad as to be considered one of the most depressed in the world and a major constraint on growth.

There was a significant loss of jobs in the industry in 2001, particularly in Lesotho, and some loss in South Africa.

One firm in Lesotho, which had been a major employer, ran into serious difficulties in 2001.

These conditions are not unique to the industry in the region (the dollar).

The South African textile industry has been hit hard, with a 10 per cent

decline in exports since the start of the year. This is more or less

on par with the decline in the rest of the world. It is clear that textile

wages in Lesotho are very low, around \$0.57; for

India the minimum wage is around \$0.38-0.50 for sewing machine operators. Note that the textile industry is more



capital and skill intensive than the apparel industry, so the data for China and India may overstate wages in the latter.

The US ITC [[2004](#): K-14] survey on Lesotho says, 'productivity [in the non-jeans segment] reportedly falls to about 50 per cent of Asian standards if pattern styles change'. As style changes are frequent in the knitwear segment, this confirms the figures given in interviews.

This is based on the author's interviews in Sri Lanka, Pakistan, Malaysia, Mauritius, Philippines and Thailand. On China see the report by China Textile University and HCTAR [[1999](#)].

There was some adverse publicity in the USA in 2002 regarding working conditions in Lesotho, leading to consumer movements protesting against apparel imports from there. While there may have been grounds for grievance earlier [[Salm et al., 2002](#)], conditions seem to have improved. Employers are increasingly subject to scrutiny by foreign buyers who inspect working conditions. The widespread use of locals as personnel managers has also improved relations with workers.

Salm et al. [[2002](#): 34].

In addition, there are differences between Lesotho and South Africa on customs clearance and production technical standards, regulations, sanitary and phytosanitary measures and trade transactions. These differences raise

See Lall and Wint [[1999](#)] and Wells and

Mauritius involves many people in Singapore, Economic Development Commission, million per annum.

Some are computing this may be a pessimistic scenario



is that with full liberalisation high cost producers will be completely removed from the export arena as foreign investor return to more efficient sites.

Policy issues pertaining to Lesotho specifically are dealt with in the World Bank [[2003](#)] and UNCTAD [[2003](#)]. On structural constraints to African industrialisation see Lall [[1995](#)].

According to UNIDO [forthcoming], the share of Africa (excluding South Africa) in global manufacturing value added declined from 3 per cent in 1985 to 1 per cent in 1998 and in manufactured exports from 1 per cent to 0.5 per cent (and nearly a third of these exports came from one country, Mauritius). With liberalisation, most manufacturing firms in African countries are also doing badly in domestic markets (for case studies of Kenya, Tanzania and Zimbabwe see Lall [[1999](#)]). There are exceptions: processing local resources and making 'heavy' products (like cement) where import competition is limited by transport costs, customised products (like school uniforms or windows) or niche products geared to local tastes. These exceptions have not, however, been enough to drive sustained industrial growth or to catalyse manufactured exports.

While high technology products like electronics now constitute the main manufactured export from developing countries, success in complex exports is highly concentrated in a few countries in East Asia and, to a lesser extent, in Latin America. Africa is effectively marginal in such exports, partly because of low domestic technological

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