

6 A Stitch in Time? AGOA and Lesotho's Clothing Sector

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Background

The Kingdom of Lesotho is a small (30,350 sq km) landlocked developing country in southern Africa. It is completely surrounded by South Africa. The population is about 1.88 million persons (US Department of State, 2009).

According to the *Lesotho Human Development Report 2006* (UNDP, 2007), the percentage of the population living below the national income poverty line has declined from 66 to 56 per cent. Poverty is highest among households headed by women, a large proportion of whom are widows, with an average age of 56 years. This is an important phenomenon since Lesotho, like other countries in the sub-region, is vulnerable to chronic food insecurity.

In terms of trade, Lesotho is best known for its exports of diamonds, wool and mohair to primary export partners such as South Africa, the USA and its partners in the Southern African Customs Union (SACU) (Botswana, Namibia and Swaziland, as well as South Africa), where tariffs have been eliminated on the trade in goods with other member countries. Lesotho also belongs to the Common Monetary Area (CMA), which links it with South Africa and Swaziland in a common currency and exchange control union.

Changes in trade and economic policy¹¹

Lesotho's efforts to combat poverty and reduce the levels of infant mortality and maternal deaths are highly dependent on its trade performance. The country is therefore vulnerable to changes in international trade patterns and volumes. Since the mid-1990s, a number of changes in the trade environment have had serious implications for the country's growth and development. These include the phasing out, in 2005, of the Multifibre Arrangement (later called the Agreement on Textiles and Clothing); the appreciation of the South African rand against Lesotho's national currency, the loti, which is pegged to it; and the inception of the US African Growth and Opportunity Act. Since the 1990s, Lesotho's growth has been partly driven by the expansion of the textiles industry, primarily owned by Chinese and South African companies.

The currency appreciation and the rounds of trade liberalisation promoted by the MFA phase-out, together with the entry into force of AGOA, have had a significant impact on Lesotho's textiles and garment sector. The phase-out of the MFA, which had restricted trade in textiles to a subset of countries, opened up the global clothing and textiles market to big, low-cost exporters such as China and India and therefore posed a danger to Lesotho's garment sector. On the other hand, AGOA significantly opened up trade between the USA and 38 designated sub-Saharan African countries, including Lesotho. The Act, which offered eligible countries duty and quota free access to the US market for substantially all products, was originally designed to run for eight years, starting in October 2000 and terminating in September 2008; in July 2004, however, it was extended to 2015.

Countries are deemed AGOA-eligible if they meet criteria that include the establishment of a free market economy, the rule of law, political pluralism, elimination of barriers to US trade and investment, efforts to combat corruption, protection of intellectual property rights, protection of human and worker rights, elimination of child labour and policies to reduce poverty. AGOA eligibility is reviewed annually, based on reports that assess the country's record in adhering to the eligibility requirements. Countries must also satisfy certain preconditions on specific enforcement measures such as the adoption of an effective visa system and related procedures to prevent unlawful trans-shipment and the use of counterfeit documents, and the implementation of certain customs procedures that assist the customs service to verify the origin of export products. These are all to be found in Lesotho.

Of particular benefit to Lesotho is that under a special rule for least developed beneficiary countries it enjoys duty free access for apparel using 'third country' fabric, i.e. fabric originating anywhere in the world. It was originally intended that the rule would expire in 2004, but it was subsequently extended to 30 September 2007 and then to 2012.

AGOA has had a positive impact in terms of a rising inflow of foreign direct investment into the clothing manufacturing sector and subsequent increases in employment. Rising employment has helped to foster growth in both the formal and informal sectors of the economy due to spin off and multiplier effects on direct and indirect services such as road construction, freight transport, security, passenger transport, and the distribution of water and electricity. It has also helped to foster growth in communications services such as telecommunications and courier services. Domestic market areas such as food sales and provision have also been positively affected.

The textiles and garment industry

Textiles and garments have been the source of Lesotho's industrial development since the 1980s when a number of firms fled the apartheid regime in South Africa and opened up businesses there. Since then, the country's apparel manufacturing sector has experienced growth.

The most important single export product is denim jeans, which are produced in eight factories employing 15,000 workers (80 per cent women). By the mid-2000s, Lesotho was producing 26 million pairs of jeans per annum, 98 per cent of which were sold in the USA. The factories are supplied with denim fabric by the local Formosa Mill, which also supplies several other African countries. In addition, the garment industry produces approximately 70 million knitted garments a year in 34 factories that employ 28,000 workers. A number of firms supply services directly to the textiles and garment industry (Bennett, 2006).

Impacts of changes in trade policy on women

Economic impacts

Overall, AGOA has been good for Lesotho. The country's manufacturers are the single largest users of the apparel provisions of the Act. In 2004, they earned US\$456 million from exports to the USA and a smaller quantity from the EU, Canada and SACU.

It was expected that exports of knitted garments and related jobs would fall in 2007 when AGOA regulations were due to be changed to require manufacturers to source their raw material fabrics inputs from the USA or AGOA countries. Lesotho had previously benefited, through its least developed country status, from the provision of the Act that allowed African factories to use fabric from Asia. It was therefore feared that this would result in retail giants such as Gap and Kmart, which sourced from Lesotho, diverting their orders elsewhere (Bennett, 2006 and 2008; UNCTAD, 2005). However, this did not come to pass, as the provision was extended to 2012 under the AGOA renewal in 2006. Nevertheless, Lesotho's textiles exports fell by 12 per cent in 2005 and 11 per cent in 2006, with corresponding decreases in employment. This can be attributed to two main factors: the ending of the MFA in 2005, which led to retailers sourcing from other countries; and the massive appreciation in the value of the local currency, which has meant that Lesotho's exports have become relatively more expensive.

Although job losses were very high immediately after the ending of the MFA, when many international buyers switched all or part of their garment procurement to China and India, the recent imposition of anti-China textiles

and clothing safeguards by the USA and EU has resulted in some orders drifting back to Lesotho and the reopening of several factories. Lesotho remains the largest single sub-Saharan African exporter of garments to the USA (27 per cent of the total). However, international competition from Asian exporters has resulted in some fall-off in textiles and clothing, cumulating in the loss of over 10,000 jobs between 2004 and 2005. Many of these have not been recovered (UNDP, 2007).

Social and cultural impacts

Despite the benefits mentioned above, the liberalisation of trade in textiles and garments has also had significant adverse gender and social effects. These include problems with wages and working conditions, increased incidence of HIV and AIDS, and worsening water and other environmental challenges.

Wages and working conditions

According to the Lesotho Clothing and Allied Workers Union (LCAWU), the number of people employed in the industry – the vast majority of them women – has fallen to almost half of what it was in 2001 (Davis, 2008). Exports of knitted garments and related jobs can be expected to fall further as the country has no AGOA source of knitted fabric, which will become a requirement for export to the USA when AGOA regulations are changed in 2012.

Even before the downturn, labour organisers complained that workers in the textiles sector were exposed to unhealthy conditions that negatively affected their labour and human rights. This situation seems to have worsened with the downturn, as the LCAWU claims that textiles factories often ignore Lesotho's labour laws (BBC, 2002). Labour organisers contend that workers who spend nine hours a day, six days a week sewing labels on T-shirts, who have helped turn Lesotho into a garment manufacturing powerhouse and an important trading partner of the USA, have not themselves received any significant benefits.

HIV and AIDS

The textiles and garment industry has provided a source of employment and income for thousands of women who have migrated from drought-ravaged rural areas where farming has collapsed. Just as AIDS arrived in Lesotho when its men brought HIV home from South Africa, this second wave of migration is also spreading AIDS, as women exchange sex for the money they need to make ends meet in their new and unfamiliar urban environment. The

infection rate in Lesotho is about 28 per cent of working-age adults – exceeding that in South Africa; 57 per cent of those infected are women. This is resulting in more openings in garments factories as on average four workers die each month. Few women factory workers have been tested for HIV, although this is slowly changing (Wines, 2004).

Water and other environmental challenges

With much of the attention of policy-makers focused on the manufacturing sector, agriculture has lagged behind, with the result that the welfare of women and men is at risk due to chronic food insecurity.

Gibbs and Gibbs (2002) argue that as a result of trade liberalisation-led growth under AGOA, Lesotho and its capital Maseru are facing a double challenge to the water supply. First, there is barely enough water to supply the industries and people in Maseru already, and growth will be limited without reform of water policies. Second, waste water from various factories is not being adequately treated and is resulting in increased levels of pollution. A report from the UK Department for International Development (DFID) predicted that as a result of these problems, Maseru could face a crisis that meant that employment would fall from a projected 30,000 to 15,000 in 2008 (cited in *ibid.*).

The water challenge poses significant constraints on the future development of the textiles and garment sectors, as well as all other economic areas. More importantly, it raises concerns about health and safety and the general welfare of citizens. Food insecurity and water shortages place an additional burden on women in their multiple roles as workers, consumers and care-takers of the household, food production and community sustainability.

Measures taken to help women deal with policy changes

Local and national levels

In order to maintain their competitive position, Lesotho's textiles and garment firms have now started to invest in the training of their staff, which should increase productivity and result in workers being able to earn higher incomes as their firms become more profitable. It is unclear whether women and men will benefit equally from new training opportunities.

In addition, the Government is re-examining the package of incentives that it offers to investors. Currently, the major focus has been on a favourable corporate tax regime (better than that for domestic-focused manufacturers) for spending on infrastructure for textiles and garment facilities. The Government is seeking ways to overcome the vulnerability of the textiles sector to

changing international shocks and to develop a long-term strategy for the industry. A key aspect of this should be a better approach to incentives, as well as the evaluation of existing domestic policies from the point of view of poverty reduction, human development and gender equality.

There is evidence of a recognition that the previous strategy of export-led growth in the textiles and garment industry might have come at the expense of the social sector, and there are indications that some attempts are being made to rebalance priorities and concerns. For example, the share of the education sector in the recurrent budget rose from 18 per cent in 2003/04 to 22 per cent in 2004/05 and 25.7 per cent in 2007/08. This is a good omen for refocusing on building the human capital of the country (UNDP, 2007).

The Government's national poverty strategy for 2008–2103 and the Lesotho Strategy for Growth and Poverty Reduction aim to reduce poverty through broad-based economic growth designed to create jobs, generate income and empower citizens to make investment decisions that will increase their quality of life (UNDP, 2007). A 2008 AGOA report also highlights that the Government signed a \$362.5 million millennium challenge compact in July 2007. The compact aims to reduce poverty through developing urban and rural water infrastructure, enhancing health-care infrastructure and stimulating private sector development by removing barriers to foreign and local private sector growth.¹² The Government is also paying more focused and proactive attention to HIV and AIDS.

As noted above, unions and civil society in Lesotho are organising to achieve better labour conditions and stricter enforcement of labour laws, including the minimum wage in the manufacturing sector.

International level

Several international NGOs are involved in issues such as working conditions, and HIV and AIDS. For example, CARE is training some factory workers to counsel and educate co-workers about HIV, and some factories allow workers time off to visit counsellors. CARE also hopes to get US retailers involved, using their support for AIDS victims in garment factories as a selling point with consumers at home. The Government has also begun to offer voluntary testing programmes in some factories.

Lessons learned

The growth and development of Lesotho is inextricably intertwined with the fate of the textiles and garment sector, which is extremely vulnerable to external shocks. The current growth dynamics are intimately tied to AGOA, which is expected to come to an end in 2015. As a result, decline is antici-

pated in the sector in the future. The economy is over-reliant on the South African economy with, for example, recent dramatic losses in remittances from miners who have lost jobs there. The current global financial crisis will also have a further negative impact.

There are a number of lessons for local organisations such as unions, as well as for the Government and the international community.

Lessons for local organisations

In addition to advocacy about working conditions and wages in the factories, unions and other civil society organisations must turn their attention to broader welfare issues such as rural–urban imbalance in infrastructural support, food security and environmental sustainability. In the case of rural–urban imbalance, more funds need to be spent on agricultural modernisation and support for subsistence farmers and food production. This will help to ensure adequate supplies of food for domestic consumption at reasonable prices. Similarly, attention to the management and distribution of water should focus on ensuring the protection of this valuable resource, which is critical for life as well as for agriculture, manufacturing and services.

Lessons for the Government

The key lesson that policy-makers in Lesotho seem to be cognisant of is the need to diversify their export base as well as to shore up the domestic economy. It is clear that preferences alone are not enough. The long-term sustainability of investment linked to preferential and regional trade agreements is questionable and must be grappled with head on and proactively. There is a great need to build domestic markets, enhance the labour force and provide broad-based infrastructural support for agriculture. Over-reliance on a few extremely footloose and foreign-dominated firms in the textiles and garment sector of the economy has been at best a far too narrow growth strategy. Recognition of this has propelled the Government to seek the revival of the diamond sector.

There is also a need to pay attention to the social and environmental impact of trade and development strategies. This is especially true in relation to the use of water for industrial purposes, without any regulations concerning the environmental safety of the overall water system. Ultimately, development strategies must think beyond the cross-border flow of goods and services to the human, social and ecological impacts of these strategies.

Lessons for international agencies

Technical assistance must be more broadly conceptualised and implemented to take into account social, gender and environmental impact analysis. In addition, overseas development assistance needs to be scaled up to improve treatment of HIV and AIDS from a gender and social perspective, as well as to promote human development and gender equality. This is necessary to stem the reversal in social and health indicators that is taking place despite rising trade and growth figures.

The international community needs to make food security a focus in trade growth strategy. The growth of trade in the textiles and garment sector has not been sufficient to deal with the fragile food situation that Lesotho continues to face. A focus is needed on the agricultural sector, including the gender challenges and constraints that hamper subsistence farming and food production.

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