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Lesotho's Export Textiles & Garment Industry

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Country Reports

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By Mark Bennet

1. Introduction

Lesotho has a well developed apparel manufacturing industry. Its manufacturers are the single largest users of the apparel provisions of the African Growth & Opportunity Act (AGOA). In 2003, they exported US $ 393 million (104 million m^2 equivalents) to the United States; and in 2004, in spite of persistent US $ weakness, they exported an astronomical US $ 456 million (112 million m^2 equivalents).

Today Lesotho produces about 26 million pairs of denim jeans a year. They are produced by 8 factories which collectively employ almost 15,000 workers. It has a vertically integrated denim manufacturing mill – the Formosa Mill – which produces its own yarn and more than 7,000 tons of denim fabric annually. Almost 98% of all Lesotho-made jeans are sold in the USA; smaller volumes are sold into the EU, Canadian and SACU (Southern African Customs Union) market places.

It is estimated that Lesotho's garment industry also produces approximately 70 million knitted garments a year. A wide range of (mainly cotton) knitted garments is produced – from single/double jersey, pique, interlock and rib fabrics. A number of factories are now beginning to make fleece knitwear made from synthetics. These garments are produced by 34 factories which collectively employ about 28,000 workers.

A small number of firms supply services directly into the textiles and garment manufacturing value chain. Lesotho has two large computerised embroidery firms, and a screen-printer which has the capacity to screen more than 20,000 garments a day.

Since mid-2004 the industry has experienced problems. First there has been a massive appreciation in value of the local currency – the Loti (which is linked to the South African Rand). This has meant that Lesotho's exports have become more expensive. Then at the end of 2005 the World Trade Organisation's (WTO) Agreement on Textiles & Clothing (ATC – also known as the Multi-Fibre Arrangement (MFA)) expired which meant that the buyers of Lesotho-made garments could buy unrestricted quantities of garments from places like China.

2. Employment & Wages

2.1 Employment

It is estimated that Lesotho's export-orientated textile and garment firms currently employ about 40,000 workers – about 36,400 workers on a full-time basis, and about 3,600 workers on a temporary/casual basis. At its peak, in July 2004, it was estimated that the industry employed about 54,000 workers – at least 51,000 on a full-time basis and approximately 3,000 on a part-time/casual basis. Table 1 shows the growth in industry employment.

Table 1: **Growth of Employment 1999-2005**

	July 99	July 00	July 01	July 02	July 03	July 04	July 05
Employment	9 847	16 417	23 518	33 140	44 345	53 087	40 364

Table 2 shows the dramatic decline in the employment in Lesotho's textile and garment industry between July 2004 and July 2005. The knit garment sector of the industry has been affected the worst; while the woven garment industry has been hardly affected.

Table 2 **Number of Workers and Firms by Product: 2004-2005**

Industry Sub-Sector	July 2004		July 2005	
	Workers	Firms	Workers	Firms
Denim jeans / Woven garments	14 445	8	14 754	8
Knitted garments	35 472	37	20 889	30
Denim fabric	0	0	950	1
Ancillary (embroidery; screen printing)	670	4	171	3
Est. temporary workers employed	2 500	-	3 600	-
Total	53 087	49	40 364	42

Even today, Lesotho's textile and garment industry employs a significant proportion of Lesotho's population. In spite of the recent shocks to the industry, there are more people employed by garment and textile manufacturers than are employed by the Government of Lesotho as civil servants (in early 2005 it was claimed that there were 36,710 people employed as civil servants). In employment terms the industry is the country's second biggest formal sector employer if one was to include those Basotho who are employed in South Africa's mining industry (in early 2005 it was estimated that 47,122 Basotho migrants were employed in South African mines (down from 61,525 in early 2004).

2.2 Wages

The minimum wages and working conditions of workers engaged in Lesotho's textiles and garment industry are mainly regulated by Lesotho's labour laws; although in some instances agreements between unions and the representative employer's association do regulate conditions of service. For the period 1 October 2005 to 30 September 2006 the statutory minimum wages in the industry are as follows:

Table 3: **Statutory Minimum Wages**

Clothing, Textile & Leather Manufacturing	Monthly Wage (Maloti)	Weekly Wage (Maloti)	Daily Wage (Maloti)
Textile General Worker	643.00	160.00	34.00
Textile Machine Operator – Trained	686.00	172.00	36.00
Textile Machine Operator – Trainee	643.00	160.00	34.00

It was estimated that in mid-2005 the approximate 40,000 workers engaged in Lesotho's textile and garment industry earned about M306 million (US $ 48m [at an exchange rate of US $ 1 = M6.40]) per annum. It was conservatively estimated that in July 2004 the 50,000 Basotho workers employed in the sector earned approximately M449 million per annum (US $ 70m [at an exchange rate US $ 1 = M6.40] per annum). In 2004 many of the workers engaged in the industry were working overtime (resulting in workers earning overtime wages); the current economic plight of the industry means that hardly any of the workers work overtime. However, it is important to note that the actual income earned by workers in both 2004 and 2005 may be slightly higher as many workers do earn production incentive bonuses.

3. Firms in the Industry and Output

Lesotho is a significant producer of a narrow range of clothing products. In December 2004 estimates showed that the local industry was producing about 116 million garments per annum. Lesotho manufacturers are specialists in producing denim jeans – the country's denim jeans manufacturing industry makes about 26 million jeans per annum. The industry is also a significant producer of knitted garments – in November 2004 it was estimated that the industry produced about 90 million knitted garments a year. Currently it is estimated that the industry continues to make about 26 million pairs of denim jeans, and about 70 million knitted garments per annum. The industry has the following manufacturing profile:

- *Denim Fabric & Cotton Yarn:* Lesotho has one denim fabric manufacturing plant. The Formosa textile mill (owned by the Nien Hsing group: headquartered in Taiwan with textile and garment manufacturing operations also located in Taiwan, Mexico and Nicaragua) imports ginned cotton from a range of African countries (including Malawi, South Africa, Zambia, and Zimbabwe), spins it into yarn, dyes the yarn, and then weaves the yarn into fabric. The Formosa mill, which was commissioned in late 2004 at a cost of about US $ 120 million, is Lesotho's only textile manufacturing facility. This denim mill has the capacity to annually produce 6,300 tons of denim fabrics. In addition, Formosa Textiles has a ring-spinning facility that has the capacity to make an additional 10,800 tons of yarn which is suitable for use in the knit fabric manufacturing industry. Formosa beneficiates a large quantity of what it produces – mainly in the three denim garment manufacturers that it owns which are located in Lesotho. It also sells denim fabrics to garment manufacturers located in places such as Botswana, Kenya, Madagascar, Mauritius, South Africa, and Jordan. Formosa is now also starting to sell yarns to other knit fabric producers on the African continent. It is important to note that another Lesotho based jeans manufacturer – the CGM Group – also owns a vertically integrated denim fabric manufacturing plant. The Crucial Trade facility (formerly known as De Nim Textiles) is located 500 kilometers away near the South African city of Durban.
- *Denim Garments:* Lesotho has seven separate factories that specialise in the production of women's/men's/junior denim jeans. It is estimated that these firms currently manufacture about 26 million pairs of jeans a year. They also make limited quantities of cotton chino trousers. Lesotho's jeans manufacturing industry is dominated by the CGM Group (with 3 factories: CGM; United Garments and Presitex); and the Nien Hsing Group (also with 3 factories: C & Y Garments; Global Garments; Nien Hsing). Both of these groups employ

about 7,000 workers each. Lesotho's remaining denim garment manufacturer, Humin Jeanswear, also has a sister plant located in the nearby South African town of Botshabelo.

- *Knitted Garments:* Lesotho has 28 firms which specialise in the production of garments made from knitted (mainly cotton) fabrics. It is estimated that these firms currently (September 2005) make approximately 70 million knitted garments a year. While the production of the industry is diverse most of these manufacturers concentrate in the production of women's / men's / junior tops and bottoms. A small number of its producers also make a significant volume of fleece garments. A November 2004 survey carried out by the ComMark Lesotho Apparel Project estimated that these garment producers could annually consume between 22,000 and 26,000 metric tons of knitted fabric of the following specifications: "single jersey", "interlock", "1x1 rib", "2x2 rib" and "fleece". The majority of these firms are owned by people of Chinese origin (both from People's Republic of China (including Hong Kong) and the Republic of China (i.e. Taiwan) – although some of them have been in Lesotho for a long period of time and are now Basotho citizens.
- *Wovens:* Lesotho has one manufacturer that specialises in the production of woven garments. The company mainly makes industrial workwear and chefs uniforms.
- *Dual Production – Knits & Wovens:* There are 2 firms which produce both woven and knitted garments.
- *Embroidery:* Lesotho has two dedicated embroidery firms which do contract work for Lesotho's garment manufacturers existing. At full production these firms collectively employ about 500 people.
- *Screen printing:* there is one firm – owned by a Masotho – that provides screen printing services to the garment industry. This firm can screen at least 20,000 garments a day using a number of colours.

It is important to stress that the contribution of this sector to the Lesotho economy goes beyond the immediacy of the textiles and garment industry itself. There are important employment and economic multipliers. A range of other formal and informal sector economic activities take place in Lesotho which feed directly and indirectly off the sector. For example: a packaging industry (there are: one corrugated cardboard manufacturer which uses paper board imported from South Africa and two cardboard box manufacturing firms), the freight transport industry; the courier services; the shipping and forwarding agents, the security sector; the taxi industry; the street traders that sell food to workers that work in the factories, etc.

4. Exports

Lesotho has always had an export focussed garment manufacturing industry. Pre-2000 much of Lesotho's exports targeted the SACU market place – although some products were exported out of the SACU (mainly to the EU). With the coming into force of AGOA the market focus of Lesotho's garment industry switched to the United States.

The clothing and textile industry is Lesotho's most important exporter – it has been claimed that the industry contributes at least 19% of the country's GDP. In 2002, it was estimated that approximately 74% of Lesotho's total exports (aside from water which is piped to South Africa) were textile and garments; in 2003 it was estimated that more than 77% of Lesotho exports were textiles and garments. Almost all of Lesotho's garment exports go to the USA. Limited amounts go to other destinations such as Canada; even smaller volumes go to the member states of the European Union, Dubai, Qatar, Chile, Japan and Taiwan. In spite of EU trade preferences (via Cotonou & the Generalised System of Preferences (GSP)) Lesotho's EU garment exports are negligible. Between January 2005 and June 2005 Lesotho's EU garment exports accounted for about 0.2% of total textile and garment exports (total exports to the EU amounted to M1.390 million).

Table 4: **Garment Exports to EU Jan.-June 2005**

	Maloti		**Maloti**		
United Kingdom	1 527 932	France	261 130		
Ireland	613 462	Germany	88 725		
Netherlands	428 757	Spain	41 233	Total EU Exports	2 961 239

Lesotho firms are now also beginning to sell small (but growing amounts) of clothing to South African retailers; as previously mentioned Lesotho's denim mill also exports denim fabrics and yarns to Botswana, Kenya, Madagascar, Mauritius, South Africa and Jordan. In 2001, Lesotho exported more than US $ 217 million worth of textiles and apparel to the USA; in 2002 US $ 321 million were exported; in 2003 US $ 392 million; in 2004 US $ 456 million; between January-June 2005 Lesotho exported US $193 million worth of garments to the USA; (between January-June 2004 its USA garment exports were US $ 204 million). In spite of recent problems Lesotho remains the largest Sub-Saharan African (SSA) exporter of garments to the USA (27% of total SSA garment exports).

Purchasers of Lesotho's garment exports include well known brands/retailers such as: the GAP, Reebok, Jones Apparel, Levis Strauss, Walmart, K-Mart, Sears, Gloria Vanderbilt, Calvin Klein, Ralph Lauren, etc. It is thought that much of the garment exports to the EU are specialist items (mainly chefs jackets), and production for GAP stores. It is important to note that the Irish pro-Africa campaigner (Bono) and his wife (Allie Hewson) also source garments (some under the label "Edun") from Lesotho factories.

5. The Problems Encountered by the Industry

In the past 18 months – like garment and textile manufacturers located in many countries around the world – Lesotho's textile and garment industry has received severe knocks. In January 2005 about 5,800 workers were left unemployed when six factories closed their gates. The affected factories were: "Precious 6" which employed 300 workers; "Leisure Garments" which had 300 workers; "Modern Textiles" with 500 workers; "TW Garments" with about 2,205 staff; "Lesotho Haps" with 1,305, and, "Vogue Landmark" which employed 1,240 workers. A little later in 2005 Hong Kong International Knitters closed their factory doors resulting in about another 1,000 losing their jobs. All these factories were involved in the production of knitted garments. In all, about 1,100 jobs were lost in Maseru; while 5,750 jobs were lost in the Maputsoe and Ha Nyenye industrial estates. The main reason why these factories closed can be attributed to the strength of the Loti vis-à-vis the US $. In addition, it is quite possible that the decision by some owners to shut their factory gates was also in some way partly influenced by the expiry of the World Trade Organisation's (WTO) Agreement on Clothing & Textiles (ATC) – buyers that normally give them orders placed their orders in other factories in other countries.

The factories that have continued manufacturing operations have not been unscathed. Most firms, especially those that are engaged in the manufacture of knitted garments, have been forced to retrench staff; short time working is now a widespread phenomenon.

The Strength of the Loti

Over the past few years the Loti – which is tied to the South African currency at par (SACU's Common Monetary Area (CMA)) – has significantly strengthened in value. At the end of January 2002 one US $ would buy about 11.44 Maloti; in January 2003 you could only get 8.65 Maloti; in January 2004 one would have got 6.85 Maloti; and, at the end of January 2005, a US $ would have got you only

5.93 Maloti. At one point in December 2004 the US $ plummeted to 5.58 Maloti. In 2005, the Loti has weakened but its value has fluctuated significantly – at one point US $ 1 would have bought 6.90 Maloti. The strengthening of the local currency has meant that Lesotho's garment exports – the overwhelming majority of which is exported to the USA – have become too expensive. Because of the strength in the local currency, Lesotho has not been able to sell many garments in South Africa (which constitutes about 92% of the Southern African Customs Union's (SACU) economic activity).

The problems experienced by Lesotho's currency's strength have also been felt by other SACU members. In South Africa, research has shown that over a two year period from January 2003 to December 2004, about 37,500 textile, garment and footwear workers have lost their jobs mainly as a consequence of the strength of the local currency vis-à-vis the US $. (It is important to note that the strength of the Loti has also negatively affected Lesotho's economy in other way. Thousands of Basotho workers who were engaged in South Africa's mining industry have been retrenched mainly as a consequence of the rise in the value of the local currency.)

In the author's view the weakening of the value of the US $ and the strengthening of the local currency remains the single biggest factor responsible for the squeeze on local employment.

The Expiry of the Agreement on Textiles and Clothing (ATC)

Another major concern of the Lesotho government is the expiry of the WTO's Agreement on Textiles & Clothing (ATC). On 31st December 2004 the ATC arrangement finally came to an end. In terms of this agreement – which was introduced in 1994 when the Multi-Fibre Arrangement (MFA) expired – the developed countries of the world (mainly the USA, the member states of the EU, and Canada) were no longer able to impose quantitative import restrictions on the clothing and textile exports of developing countries. The main targets of these restrictions were the clothing exports of countries like Pakistan, India and the world's clothing manufacturing powerhouse the People's Republic of China. Lesotho was not really affected by these ATC quota restrictions.

Now that the ATC has come to an end there is substantial research to suggest that states like China, and perhaps to some extent India, will dominate the world's clothing trade. Lesotho was not unscathed. It has and will continue to be affected by the sourcing decisions of some international clothing brands who have been tempted to switch some, or all, of their garment procurement away from Lesotho factories and move it to production units located in places like China and India. It is thought that the recent imposition of anti-China textile and clothing safeguards by the USA and the EU has resulted in some dividends for Lesotho to the extent that some orders have started to drift back to Lesotho.

Changes To the African Growth & Opportunities Act (commonly known as AGOA)

Another major challenge facing Lesotho's garment manufacturers is that a feature of the AGOA trade arrangement, whereby the Lesotho garment manufacturers are allowed customs and quota free access to the USA economy, will change in September 2007. From this date onwards Lesotho manufacturers will be unable to source their fabric inputs from elsewhere in the world. They will be required to source all their raw material fabrics inputs from the USA or from other AGOA compliant countries (including itself). While Lesotho has sufficient fabric to make its denim jeans it still lacks the facilities that will make the knitted fabric that its knitted garment industry requires. Lesotho requires a range of knit fabric manufacturers that can supply its industries with between 20,000 and 26,000 tons of knitted fabrics. In other words, should AGOA third country fabric provisions expire in September 2007 and Lesotho not find alternative supplies of knitted fabrics (either via integrate knit fabric mills located in Lesotho or via competitively priced purchases of knit fabrics from AGOA eligible countries) then Lesotho will lose its knit garment industry.

World Trade Organisation (WTO) Tariff Reductions – Preference Erosion

A significant challenge that will soon confront Lesotho will arise from the proposals of the WTO to further reduce industrial tariffs on a worldwide basis. The main problem with this proposal will be that it, if left in its current form, will also affect global textile and clothing tariffs. Should this happen – and negotiations on this issue are likely to continue under WTO – it could undermine the preferential tariff preferences that Lesotho (and many other developing countries) enjoys when its products enter the modern industrialised markets of the world. At the moment, Lesotho's apparel products enjoy a significant tariff preference as a consequence of the AGOA legislation and the EU's Cotonou/GSP preferences. Lesotho's products enter these economies at 0% duties while many other countries pay significant customs duties. If global tariffs were to drop it would mean that the other countries which currently pay duties will pay less duties and this could undermine Lesotho's preference.

6. Efforts Taken by Lesotho to Mitigate Negative Pressures

Lesotho has initiated a number of programmes to protect the industry that exists. To date, this effort to assist the industry has included not only the endeavours of various Government Ministries, but has also involved the active participation of many other sectors of – society – in particular the Lesotho National Development Corporation (LNDC). Some of the measures taken include:

• *Inter-Ministerial Textile and Apparel Industry Task Team*
In late June 2004 the textile and apparel sector raised a number of concerns with the Government. The problems placed on the table were the subject of high level discussions involving the Lesotho Prime Minister, Mr. Pakalitha Mosisili. As a consequence of these discussions, the Prime Minister directed that an Inter-Ministerial Textile and Apparel Industry Task Team should be urgently established. This Inter-Ministerial Task Team immediately set-up a number of multi-stakeholder technical committees to analyse problems raised and to suggest solutions.

After two months of feverish work the Inter-Ministerial Task Team presented a report to the Prime Minister. The report was then adopted by Cabinet on 21 September 2004 as a Government working document. The report and its recommendations were wide ranging. It dealt with matters related to foreign exchange, taxation, industrial incentives, import and export clearance issues, the need for Lesotho to have a fabric mill post-September 2007, work and residence permits, security matters, and a range of matters related to improving infrastructure. Since it has been adopted a Committee chaired by the Minister of Trade & Industry, Co-operatives and Marketing has met on almost a bi-weekly basis in order to receive report backs.

• *Lesotho Government-led Delegation Trip to USA in January/February 2005*
To ensure that Lesotho's garment export drive to the USA remains strong, a multi-stakeholder delegation – involving the Minister of Trade, staff of the trade ministry, the LNDC, members of the private sector, and leaders of the trade union movement – visited the USA in late January 2005. The USA Ambassador to Lesotho also accompanied the delegation. The delegation held a number of meetings with the US government – both from its Congress and its Administration. In addition, the delegation held round table discussions with representatives of the major garment brands – the Gap; Levis Strauss. The trip was an overwhelming success. Not only did it raise the profile of Lesotho's textiles and garment industry; but the delegation has retuned to Lesotho with reassuring messages of support from some of the companies that source from Lesotho. Itt is expected that these messages of support will be translated into additional orders over and above the regular levels that are already being given to Lesotho.

• *Improving Firm Competitiveness*
Lesotho's garment firms have now started to invest in the training of their staff – some training programmes have had spectacular results (one ComMark programme has resulted in some firms improving firm output by up to 35%). Without a sustained investment in training Lesotho companies will find themselves increas-

ingly less competitive and this will result in many of them losing orders; increased firm productivity should also result in workers being able to earn higher incomes as their firms become more profitable.

• *Investment Promotion*

The Lesotho National Development Corporation (LNDC) has now also initiated plans to attract further textile and garment investments to come to Lesotho. In this regard, the LNDC is looking for additional investments that are involved in the denim value chain; and firms that produce knit fabrics. Lesotho is also trying to link Lesotho manufacturers with regional manufacturers – links with regional manufacturers will give Lesotho firms greater flexibility. They import most of their garment inputs – fabrics and garment trims – from China.

• *Incentive Structure*

The Government of Lesotho is now re-looking at the package of incentives that it offers investors. It is envisaged that the incentive package will not only affect manufacturers in the textile and garment value chain. It is looking at a new incentive package because of the crisis currently affecting most garment and textile manufacturers; and in the hope that such a new incentive package will be able to attract new investors (see Annex "A" for details of what Lesotho can offer existing manufacturers). The main incentive that is currently under consideration relates to the country's corporate tax regime. Currently, all of Lesotho exporters have a more favourable corporate tax regime than exists for domestic focussed manufacturers.

Lesotho does not have any export processing zones. There are no derogations from the country's labour laws for textiles and garment manufacturers – Lesotho's garment and textile manufacturers have to comply with the same labour laws that every other Lesotho private sector employer has to comply with. Lesotho's labour laws make no distinction between wage payments of foreign owned and local firms. Current discussion concerning Lesotho's manufacturing incentive package do not include any requests for any changes to Lesotho's labour laws.

Many of the incentives that Lesotho offers its textiles and garment exporters are those which are contained in the tariff book of the Southern African Customs Union (e.g. manufacturers are able to import fabric free of duty as long as the garments it makes from these fabrics are exported out of SACU – the 470.03 rebate). Importantly, Lesotho textile and garment firms can also earn the Duty Credit Certificate (DCC) incentive (which rewards companies that export). Lesotho's DCC scheme is exactly the same as what South African textiles and garment firms earn. However, discussion in South Africa which will limit the length of the DCC scheme, and limit the ability of Lesotho manufacturers to use their DCC certificates in the SACU are a cause for concern. Should Lesotho DCC not be usable in South Africa, and the length of the scheme be reduced it will negatively affect Lesotho's textile and garment industry – many companies could close, then.

Annex

Lesotho's "Incentive" Package

Taxation

- a permanent maximum manufacturing tax rate of 15% on profits;
- no withholding tax on dividends distributed by manufacturing firms to local or foreign shareholders;
- no advanced corporation taxes are paid by companies on the distribution of manufacturing profits;
- training costs are allowable at 125% for tax purposes;
- payments made in respect of external management, skills and royalties related to manufacturing operations are subject to withholding tax of 15%;
- easy repatriation of manufacturing profits;
- a VAT rate of 14% (ensuring harmonisation with South Africa). Furthermore, the Lesotho Revenue Authority has introduced flexible VAT payment systems, to tax compliant firms, to ease cash flows.

Tariff Rebates & Duty Free Access to Global Markets

- As a member of the Southern African Customs Union (SACU) Lesotho textiles and garment firms are able to access almost the entire range of SACU rebates. Currently, firms make extensive use of the 470.03 rebate in terms of which firms are able to import, free of duty, inputs that are used to make products for export outside of SACU. A company that sells some of its produce into SACU will only pay duty on the imported raw materials used to make goods that are sold within SACU;
- Lesotho manufacturers, by being located in a Least Developed Country (LDC), get duty and quota free access to the following trading blocks and states:
  - SACU (50 million consumers);
  - USA (295 million consumers) – producers can benefit from AGOA. Importantly, up until September 2007, Lesotho firms can use fabrics made anywhere in the world in their garments destined for the US market;
  - European Union (400 million consumers) – producers can benefit from the Cotonou trade agreement;

  - Lesotho producers also have preferential access to SADC, the Mercosur (South America) trade block, and to Japan, certain Scandinavian states, Japan, Canada, Australia, and New Zealand.

Other Incentives

- Lesotho textile and garment manufacturers can earn Duty Credit Certificates. DCC are tradable instruments which can be used to offset the duty on fabric and garment imports. DCC earned in Lesotho can be sold in South Africa; firms earning DCC must spend 3% of their total payroll on training (Lesotho has no other training taxes / levies);
- the LNDC may loan funds to finance projects or take equity investments in projects;
- the Central Bank of Lesotho provides credit guarantee assistance to exporters.