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NEWS WORTH KNOWING

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## **Bold partnership paying off in Lesotho**

LESOTHO's recent announcement to cut company tax on income derived from exports is a considered move to preserve the country's vital apparel industry.

Indeed, the cut in tax to zero for income earned from exports outside of the Southern African Customs Union represents a purposeful step to support the successes of an apparel industry dedicated to exports and creating jobs in a country desperate for employment.

Globalisation presents opportunities for developing countries — but harnessing these requires a different kind of partnership between the state and the private sector. The Lesotho experience demonstrates that alliances between government and business can help take advantage of global opportunities.

The growth of the Lesotho apparel industry over the past five years has been built on the preferential trade opportunities created by the US African Growth & Opportunity Act (Agoa). It is now the largest employer in Lesotho, with 40000 jobs, and has become a well-regulated industry producing garments for some of the world's best-known brands.

Factories in Lesotho are producing 2-million pairs of jeans and 6million knitted garments a month, mainly for export to US brands and retailers such as Gap, Wal-Mart, Levi Strauss and Jones Apparel. By 2004, Lesotho's apparel exports to the US grew to \$456m from just more than \$50m in 1996. Workers in the industry earn \$70m a year, and this income circulates through the Lesotho economy.

Agoa is one of the primary reasons that Lesotho textile manufacturers have successfully penetrated export markets — and the government wants to hold onto these gains. Joint visits by the trade and industry minister, leading industrialists and labour representatives to the US have helped to cement relationships.

True, Lesotho is coming out of a rough trading period following the demise of the Multifibre Agreement quota restriction in January last year.

There are, however, signs of a turnaround. Surge protection against Chinese apparel imports to the US has given the industry temporary relief. Four new investments were made in the Lesotho apparel industry this January, and jobs are being created. Interest from new South African investors increased recently as they see the opportunity to expand their operations to take advantage of the country's export potential.

In the global textile market, competition is not only about labour costs. Response time and reliability also matter. Becoming more price competitive does not have to imply reducing wages of workers. A more effective way to achieve this is to improve productivity. This means wages can rise while the price of the goods comes down. Despite a hostile trading environment, Lesotho companies are investing heavily in training, with positive results. Some firms have found that training programmes, implemented mainly by South African service providers, boosted their production line outputs by up to 25%.

Lesotho is also carving out a niche market as an ethical sourcing destination. In the US and the UK, pressure to produce at the lowest possible cost is being balanced by growing resistance against buyers obtaining goods from sweatshops. The higher the profile of a retailer or brand the more exposed it is to criticism of its sourcing policies, and Lesotho tends to perform relatively well in the field of “ethical labour practices”.

The London-based Ethical Trading Initiative is a partnership between organised labour, activist organisations and responsible retailers and brands. It addresses corporate social responsibility in the sourcing of goods from developing countries. It was established to implement codes of conduct in factories around the world. To remain in the global chain, Lesotho’s mainly southeast Asian factory owners have adopted the codes.

The initiative also hosts the Multifibre Agreement Forum, a group seeking ways to mitigate the effects of the demise of quotas on selected countries, of which Lesotho is one.

Acknowledgement of Lesotho as an ethical sourcing destination was confirmed at the recent World Economic Forum in Davos, Switzerland, where singer and activist Bono launched a labelling scheme aimed at attracting funding from commercial brands and consumers to fight AIDS. Known as Project Red, this will involve the sale of specially designed items with a distinctive red label or red items of clothing. Funds generated will go to programmes supported by the Global Fund to Fight AIDS, Tuberculosis and Malaria, mainly for women and children in Africa. Among the first products to be launched next month are a red American Express card and a range of fashion T-shirts made in Lesotho for Gap.

Conscience consumerism is big business. A study by the Co-operative Bank estimated that British shoppers spent £25bn on “ethical” goods and services last year, and much of this was on “guilt-free clothing”.

Some may see Lesotho’s decision to drop tax to zero for exports as part of what is known as “the race to the bottom”, of countries undercutting each other with ever more ambitious incentives and deriving less and less advantage from foreign investment.

But the combination of public and private resources can give less developed countries an edge. This is essentially the situation in Lesotho. The state supports the textile industry in international negotiations, and is working to create a business environment in which the private sector can access opportunities. It is an approach that is paying off.

□ *Salm is textile and apparel sector specialist at the ComMark Trust.*