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Reaping the benefits of preferential trade agreement: Asian FDI in the Lesotho and Swaziland garment industry

Gabriel Tati*

An Industry-Oriented Export (EOI) strategy plays a crucial role in facilitating economic and social development. For developing countries, it may also help penetrating the markets of industrialised economies. This is likely the case of the clothing industry in the context of globalisation and preferential trade agreements. Historical records show that the sector played an important role in the economic development of countries considered today as highly industrialised such as the United Kingdom, Taiwan and the United States [Palpacuer, Gibbon, Thomsen, 2004]. As part of the global efforts to combat international poverty, facilitating access for poor countries to developed countries’ markets through special trade arrangements is often seen as a viable policy instrument. While, in the context of globalisation and trade liberalisation, this intends to lessen the marginalisation of poor countries, it may paradoxically perpetuate their exclusion [Winters, McCulloch, McKay, 2004].

This article examines the dynamics of the investment arrangements set out by the governments of Swaziland and Lesotho – two landlocked Southern Africa tiny kingdoms of 17,945 km² and 30,000 km² respectively – and Asian investors in the garment industry within the framework of the African Growth and Opportunity Act (AGOA). The Act instituted in 2000 a preferential trade policy promoted by the US government under the former President Bill Clinton. The arrangements under AGOA allow the eligible sub-Saharan African countries to export to the US markets duty-free apparel made from yarns and fabrics not available in the United States and quota-free treatment for apparel made in Africa from US yarns and fabrics. It is important to note here that through AGOA, this US government-Africa partnership Act addresses the issue of market access, one of the three areas in which the negative effect of western trade policies is the most pronounced, the two others being liberalisation policies and subsidies [DATA, 2003]. The opening up of the US market to textile-derived and other products from African countries within the framework of African Growth and opportunity Act (AGOA) has been a driving force for the growth of garment business. In 2012, AGOA ended its fourth round, referred to as

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AGOA IV (2007-2012). This round was then extended until 2015 (AGOA V), but a possible extension to 2020 remains uncertain as the US would like to replace AGOA by a new instrument of international cooperation with African countries.

A cross-cutting issue in this article is the extent to which foreign direct investments enable Swaziland and Lesotho, two eligible countries, to reap the benefits of AGOA and participate in the global garment chain supply. The article also raises the question of whether the investments provide industrial conditions that are conducive to greater protection of vulnerable local workers against income poverty. The current development of the clothing industry under AGOA provides a useful framework to assess the changing patterns of the impact of foreign investments on the textile and apparel industries of the two countries. A critical assessment is therefore undertaken to look into the ability of Swaziland and Lesotho to take full advantage of duty free access to the US market with regard to the promotion and creation of conditions and incentives for investment in the textile and apparel industry. Given the competitive nature of the garment industry, it is important to understand the processes that shape the insertion of the country and their workers into the new capitalist forms of global commodity production.

The article contains five sections. This introduction is the first section and presents the context and rationale of the study. The second section offers a theoretical framework that sets the ground to assess the outcomes of such an Industry-Oriented Export strategy. The third section examines the performance and organisational arrangements in the garments industry within the framework of AGOA as it is implemented in Lesotho and Swaziland. The fourth section assesses the dynamics of the firms in the garments industry. This assessment is made with special reference to industrial issues such as the life experience of firms, transshipment, partnerships, regional economy interdependence, political relations, raw material sourcing, or the incorporation of local workers in the garment industry under AGOA. The fifth and last section concludes the article with remarks highlighting future directions for trade and industrial policy.

The statistical and qualitative information reported in this article has been mostly generated by a series of observations collected by the author from 2002 to 2010. Part of these consisted of in-depth interviews. Workers’ experiences with regard to their working conditions were obtained in a narrative form. The guiding questions in the interviews centred around aspects of the working conditions such as wages, quality of communication with the management, involvement in decision making regarding performance, occupational health, collective action, tasks and career achievements, harassment and threats. Other sources included firms-based records and government and AGOA-related statistics on exports.

A theoretical framework

For developing countries such as Swaziland and Lesotho, preferential trade agreements (PTAs) represent an important mechanism to boost exports through
foreign direct investments (FDI) [Goldar, Banga, 2007]. This importance is underscored, particularly for countries with low domestic saving rates as is often the case in the African context, where technological and financial bases are so weak that countries are rarely in a position to take advantage of such agreements to increase their exports [Niki, 2010]. FDIs are therefore important to compensate deficits in both capital and technology. There is a well-established relationship between trade agreements and foreign direct investment [Easterly, 2009]. Buthe and Milner [2008] suggest that a PTA increases the access of a less developed country’s products to a smaller number of foreign markets in the developed economies. This is one of the objectives of AGOA. To some extent, AGOA is an international institution like WTO and GATT that increases the credibility of African countries vis-à-vis private investors and facilitates international cooperation. Buthe and Milner [2008] claim that PTAs might attract foreign investors because being part of trade agreements opens up the country’s economy to FDIs. As a consequence of this attraction, economic growth improves. AGOA lowers trade barriers, and this might result in increasing incentives for vertical FDIs.

Yet, as reported in the literature, PTAs and the FDIs that come with them may produce outcomes that deviate from the actual benefits expected by the recipient country. Buthe and Milner [2008, p. 759] argue that for most developing country governments though, FDIs bring in the country much wanted capital and provide the host country with the necessary technology and training, for workers and managers. However, these authors caution that a loss of autonomy comes with increased FDIs. Taking a similar stance, Niki [2010] cautions about the presumed benefits deriving from FDIs; benefits are conditioned by the type of investments and the motivations behind them. This negative tone on FDIs has received little attention compared to the purported benefits of inward FDIs on development. Such effects include low value added activity, insufficient spending on machinery, lowly paid jobs, limited technological spill-overs and disadvantage of domestic producers and consumers in commodity supply chains because of the market power of multinational organisations. Keeping this in mind, the possible benefits for the recipient country are not well measured in the literature, especially when it comes to foreign investors complying with good business practices.

AGOA can be institutionally conceived as an instrument of preferential trade granted by the US to facilitate the entry of African countries products into its markets. In theory, AGOA should benefit the exporting countries, provided they adequately respond to the opportunities arising from the Act. The extent of responsiveness however depends on a number of factors, of which supply side constraints, the conditions of the agreement and the scale and longevity of the preferences are mentioned by Condon and Stern [2010]. This article has identified other exogenous factors and grouped them under investors’ opportunistic behaviours. According to Condon and Stern [2010], AGOA can affect the demand for imports on the buyer’s side – the US –, and exports on the producer’s side – Lesotho and Swaziland. A significant effect of AGOA on apparel exports from Sub-Saharan Africa to the USA was established by Collier and Venables [2007,
in Condon, Stern 2010, p. 59]. While Seynoum [2007] reached the same conclusion, this positive view had earlier been disputed by Nouve [2005, in Condon, Stern, 2010, p. 63]. The textile and apparel sector appears as the one benefiting the most from AGOA because of the high preference margins it enjoys [van Grasstek, 2003; Brenton, Ikezuki, 2004; Dean, Wainio, 2006]. Other studies that have investigated the impact of AGOA on the local economy provide evidence of its limited magnitude. For Condon and Stern [2010], this limited impact can be explained by the fact that the exporting firms are not fully integrated into the local economies of AGOA-qualifying countries. Although seen as considerable, the employment created in the apparel and textile sector is dominantly unskilled. The gains in skills transfer are insignificant, and so is upgrading in the sector. In Kenya for example, it was observed that production in the sector mostly requires marginal skills and minimal value added. Supervisory and managerial positions are entirely held by staff members from overseas [Condon, Stern, 2010].

Although the literature provides some indications on trade and employment outcomes [DATA, 2003; Id21insights, 2003], limited place is given to the analysis of the processes taking place in terms of investment arrangements, corporate behaviours and social mobilisation under the regime of AGOA. For example, little is known about the way in which investment arrangements in the beneficiary country under AGOA result in poor working conditions. Naturally, there are a few negative aspects associated with AGOA. Those frequently mentioned include demand for sector reforms, changing WTO rules, weakness in US market potential, AGOA’s survival, competition from other producers, lack of supportive mechanisms to provide funds to the producers and inability to manage and use carefully the quota granted under AGOA, and finally, dependency on uncertain foreign markets. Otiso [2004] argues that although AGOA is a preferential trade programme and is beneficial to Africa in the short term, its impact on industrial development is limited in the long term because it excludes products that bring real poverty alleviation. This author also questions the ability of AGOA to induce a real sense of ownership over the developmental agenda among beneficiary countries, largely because of elements such as paternalism and US-driven international goals. Technology transfer has been the most disappointing area. The firms, entirely owned by foreigners from Asian countries, use transplanted technology. Despite the preferences given during the second phase of AGOA (AGOA II) for apparel made with fabric and yarn produced in Africa, there has been no development of domestic weaving industries in the two countries. Similar cases have been observed in other parts of Africa, preventing greater vertical integration in the textile and apparel industry. The benefits of Export processing zones could be in a large proportion reaped by foreign investors [Condon, Stern, 2010].

For such products like garments, the eligible country needs foreign direct investments to seize the opportunities provided in the Act. However, Easterly cautions that investment by a third-party could have opportunistic motives such as gaining access to the profitable US market through a country eligible to AGOA. This seems to be the case of Asian investments in the textile and garment industry.
Therefore, the effectiveness of these investments, it is argued, depends on the ability of the recipient country to attract and negotiate with investors a viable participation in the supply chain. This ability has been, to some extent, problematic in countries like Swaziland or Lesotho. The article analyses the various facets of this problem, which paradoxically leads to exclusion at the macro and micro-level under AGOA.

Taking into consideration all these features, it is hypothesised that the arrangements presiding over investments from China and Taiwan under AGOA, while establishing the conditions for Swaziland and Lesotho to increase their trade output, erode the political and social capacity of these countries to set out a genuine and sustainable path for their integration into the global garment chain. This incapacity is reflected in the industrial conditions under which Asian investments are made and in the exploitative incorporation of workers, exclusively women, in the garment industry. A resulting outcome of this process is the failure, on the government side, to negotiate acceptable forms of inclusion of the nation and its labour force in the AGOA framework. The same goes with the constrained capacity of the country to reap the expected trade benefits. The article elucidates the multiple facets of this ambivalent position, between inclusion and exclusion in the global garment markets.

Some facts on AGOA performance from the perspective of textile and apparel industry

Some credible records dating back 2002 visibly indicate that AGOA has increased trade flows between the United States and sub-Saharan Africa. It is also claimed to create jobs and boost investments in the targeted sectors. These claims posit AGOA as a significant step toward the goal of providing a level playing field and improved export conditions for Africa. Along this line, DATA [2003] reported that in the two years following enactment in 2000, Africa’s clothing exports to the US grew by 46 per cent, reaching USD 1.1 billion in 2002. The same source indicates that in 2003, exports of apparel from Africa to the United States grew by 50 per cent. This indicates that the clothing industry under the AGOA regime has had a critical part in the trading capacity of many sub-Saharan African countries, prompting some analysts to argue that the industry could play a “bootstrapping” role for these countries by facilitating a kind of anchorage to the global market [Palpacuer, Gibbon, Thomsen, 2005]. More specifically, within the same period, the manufacturing sector of Swaziland and Lesotho benefited from the US African Growth and Opportunity Act (AGOA) as exports of textile and apparel increased from about USD 8 million in 2001 to USD 126.4 million in 2003 [Standard Bank, 2005].

In the two years following the establishment of AGOA, the main winners were Lesotho and Kenya [Emerging Textiles.com, 2003]. DATA [2003] however reported that the benefits of AGOA are best evidenced in Lesotho, as the country exported USD 318 million in goods to the US under AGOA, and more than...
USD 370 million in 2003. At that date, investments came to bearing in the form of a denim rolling mill, in addition to 17 garment factories and the construction of a cotton mill. As far as employment is concerned, Lesotho generated some 25,000 jobs in 2001 as a result of its AGOA status and employment increased substantially in the years that followed. Asian direct foreign investments in garment manufacturing emerged as a response to the non-protectionist policies implemented by the US government within the framework of AGOA. Today, Chinese and Taiwanese-owned firms in the garment industry have proliferated, and seemingly constitute the most dynamic segment of the national economy. Enterprises in the sector operate as transnational corporations, and their growth may be seen as the result of an integrated system of trade and production between Swaziland, Asian investors and the US market. AGOA has led the country to some kind of specialisation in different branches of manufacturing, and even in different stages of production within the garment industry. The country has been able to take up new export opportunities offered under the AGOA regime by establishing basic investment arrangements with partners from China and Taiwan. Through this process, Swaziland has gradually become part of this new framework called the global commodity chain (GCC), linking the country to the world economy. Globally the clothing chain has gained importance because of the increasing demand for textile and footwear from firms located in emerging markets and elsewhere [Geriffi, 1995], empowered by new technologies. The resulting effect of the insertion of Swaziland into the new division of labour is the emergence of a garments-manufacturing sector in which production is taken over by a considerable number of Chinese investors.

As of January 2003, there were 30 companies registered for AGOA in Swaziland (figure obtained from an on-site inventory I carried out at that time). In 2005, the number of factories in operation decreased slightly to 27, and in 2010, the number rose up to 33. During the financial year 2003, the Swaziland Investment Authority (SIPA) reported that out of the companies that opened up business in the country, 95% of the foreign investment took place in the textile and apparel sector. Although disinvestments were minor up to 2003, two major companies, First Garments and GMS textiles, closed down. In spite of this backdrop, the local textile industry was due to expand as 15 investors from Taipei were expected to set up business. There were some expectations that more jobs would be created with the expansion of factory shells for new companies.

Contrary to Lesotho, Swaziland does not have an export processing zone (EPZ) regime. It grants manufacturers producing for export a duty free exemption on inputs. They also get a five-year tax holiday after which, if they belong to the textile sector, they pay a 10 per cent income tax until the tenth year, when the tax reverts to the normal 30 per cent rate [Coughlin, Rubin, Darga, 2004]. The friendly time-frame for tax compliance may not always incite investors to operate in the industry over a long term. This is an issue we examine later. But one of the reasons behind the success lies in the expeditious procedures for company formation and approval of diverse licences. The process takes a month at most, and costs less than USD 500. The short time it takes to establish a firm strongly motivates,
among other factors, investors to select Swaziland. Moreover, Swaziland is a low-cost labour country. Viewing it as a favourable factor for repositioning in the era of globalisation, Otiso [2004] observed that the shift from high to low-cost regions is indicative of the current globalisation process, through which unequal exchange economic relations are preserved among countries with different levels of development.

In Swaziland, the textile and apparel factories are exclusively owned by Chinese investors. The number of operating plants was 30 at the time of data gathering, all of them located in the industrial processing zone of Matsapha. In Lesotho, the number was 38, of which 25 factories were subsidiaries of Taiwanese companies. However, the survey identified four factories having their head office in Hong Kong and two firms were subsidiaries of South African companies. Contrary to Swaziland, there were four Lesotho-based companies but only one of them was owned by a Basotho (a citizen of that country). Singapore and Israel had each one subsidiary factory in Lesotho. No joint-venture involving the US was recorded in either country. For both countries, the markets for which these firms produced were dominated by the USA. In Lesotho, for example, there were 27 out 38 factories producing for the USA and Canada markets, and only 6 for South Africa. Three companies were producing for these three countries taken together. Service companies were represented in a number of two. From these patterns, one can concur with the view that the apparel and textile industry has recorded significant investments from Chinese and Taiwanese business operators. Such investments are spread throughout the country in places like Nhlangano, Mankayane, Ntfongeni and Siteki among others. It is possibly for this reason that representatives of Taiwan in Swaziland have frequently claimed that Taiwan’s mission in Swaziland has empowered a lot of Swazis in terms of skills, and promoted bilateral trade between the two countries. The weight of that industry in Swaziland and Lesotho tells the whole scary future the countries will face if ever AGOA comes to end in 2015. The US law has given rise to a textile industry which is very fragile at this stage, and the expiration of AGOA would be disastrous in a number of ways. Long before the start of AGOA, between 1986 and 1991, Lesotho’s textile industry performed relatively well, owing to the incentives offered to investors. Manoeli [2012] estimates that one year before the enactment of the AGOA Act, nearly 10,000 workers were employed in the textile industry. Although accurate figures are often difficult to obtain, it is estimated that AGOA related industrial investments in Lesotho clothing industry have created between 32,000 jobs in 2001 and 50,000 in 2005 [Gibbs, 2005]. These are considerable numbers, considering the weak economy of that country. The downside of this AGOA-driven strategy has been heavy reliance on foreign investors, leaving out local investors. The sustainability of the industry will depend on the locals if foreigners ever move somewhere else when the Act comes to an end. Within the context of globalisation, investors are very mobile, as they look for new opportunities arising at the global level. Apart from the benefits accrued to the country in terms of wage distribution and payments for the use of public entities, Lesotho has not really reaped the
benefits as far as social investment is concerned. The links between the textile firms owned by Asian companies and the micro-enterprises owned by locals are non-existent. In Swaziland, there is a SEDCO-established industrial estate. Micro-entrepreneurs have pointed out that such links have failed to come out under AGOA. These local entrepreneurs are excluded from the demand emanating from the global-value chain because they lack the technological capacity to produce according to the norms imposed by global retailers. Ironically, AGOA is nicknamed “Asian Growth and Opportunity Act” in both countries. This is how local entrepreneurs express their discontent with the path taken by policy in the local context, whereby only Asian manufacturers have reaped the benefits deriving from this policy. Investors from mainland China and Taïwan have built on their long established know-how in that industry to take over areas where locals cannot compete with them.

Looking at it as a special trade regime, DATA [2003] pointed out a number of deficiencies in the first round of AGOA. These include: “the relative short lifespan of the law and special provisions to assist poor countries; inability of AGOA beneficiary countries to take full advantage of duty free access to the US market; the lack of clarity in rules of origin which prevent the denial of duty free status for many products; the lack of technical assistance and training for countries seeking to meet importation requirements for agricultural goods; and the need to improve and create conditions and incentives for investment [DATA, 2003]. An area of concern that was left out in DATA’s list is the vulnerability of individual countries to numerous malpractices that are present in the context of globalisation. The following sections provide a critical examination of some of these problems and of the ways in which they affect a credible and sustainable inclusion of Swaziland and Lesotho into the world garment chain.

The trouble-torn nature of the Swaziland and Lesotho garment industry under AGOA

Limited time frame and scope of AGOA

Although AGOA is presently in its fifth round (AGOA V), a great deal of uncertainty has always prevailed since 2000 around its duration and future rounds. Each round lasts approximately three to four years. The continuation of this bilateral free trade regime requires the approval of the US Congress. Viewed from a certain angle, AGOA is first and foremost a special trade regime with a relatively short lifespan. But for some political or geo-strategic reasons (mainly from the US side), renewed negotiations between the US and African governments have made it to survive. The nearing of round end is always a time of worries for the many Chinese and Taiwanese firms operating in the sector. Because of that, business owners tend to have a shorter vision for their operations rather than a longer one. At the Accra meeting in 2006, it was decided to extend AGOA until 2015. While each extension provides additional time to secure growth in the garment industry and create markets, it does not automatically stimulate production in areas
where capacity is currently lacking in Africa. At the end of the first round in 2004, a great deal of uncertainty was generated around the willingness of the USA to extend AGOA beyond 2008. The debate within the US Congress was around the issue of extending AGOA until 2015 or 2020.

It must be noted that there are other arrangements that tend to work in parallel with AGOA. One of these being that Swaziland and Lesotho are beneficiaries of AGOA in virtue of being previously granted eligibility for the Generalised System of Preferences (GSP). In 2004, this status was reconfirmed after a review. The end of the WTO Multi Fibre Agreement in December 2004 has had some effects in the operation of firms. The prediction was that a removal of quotas on USA textile imports might enable the Asian economies, especially China, to compete with products from weaker countries like Swaziland in that key market. China was predicted to capture a sheer market share in the categories to be released from quota in 2005. A related WTO study also predicted that China and India might take a share of 71 per cent of the global market, China’s share rising to 50 per cent for both textile and apparel. The United States international trade commission raised concern that once quotas are lifted, China will become the supplier by choice. These concerns seem to have materialised in light of what the textile industry of many African countries, especially South Africa, have so far experienced following the removal of quotas in January 2005. Swaziland experienced a boom in FDI inflows up to 2004. Since then, FDIs have substantially declined. According to Madonsela [2006], the expiry of the Agreement on clothing and textiles at the end of 2004 had a severe impact on the industry. Statistics on trade indicate a substantial decline of about 16 per cent from 2005 to 2007 in US imports of duty-free textile and apparel items added under AGOA [TRALAC, 2008]. In absolute value, this translates into a decrease from USD159,367 in 2005 to USD 134,635 million in 2007. While decline is totally attributable to the end of the Agreement, one may still relate part of it with the expiration.

**Exchange rate and US economy cycle**

The impact of foreign-exchange fluctuations on the exports of clothing products from African countries is a well-documented topic [Coughlin, Rubin, Darga, 2004]. AGOA is mainly driven by US market demand, leaving no doubt on the impact of any US economy downturn may have on these exports. Associated with the economic cycle are the fluctuations in the US dollar exchange rate, which have a great influence on the expected benefits accruing to eligible African countries. In the context of Swaziland and Lesotho, a strengthening of the South African Rand against the US dollar increases the vulnerability of the country’s industries to shocks as exports go down. East Asian investors have frequently expressed concerns about the appreciation of the Rand against the US dollar in the downturn of their sales. The depreciation of the US currency against the Rand has a negative impact on the imports of the yarn used in the fabric of textile as most of it comes from countries outside the Customary Monetary Agreement (CMA) area. But this is not specific to Swaziland and Lesotho. At the continental level, AGOA exports
depend on the US demand and the US dollar exchange rate. A weaker dollar results in further appreciation of the Rand, used by Swaziland and Lesotho in global trading, reducing the global competitiveness of their products. Reversely, the strength of the national currency, the Lilangeni for Swaziland and the Loti for Lesotho (both currencies being on par with the South African Rand), is a source of major concern for the garment industry. The financial positions of the exporting Chinese companies are eroded whenever the Rand gains strength against the US dollar. As reported below, some of these foreign-owned companies end up closing business due to rising costs.

In addition to this currency-related uncertainty is the frequent unavailability of the fabric material. Under the AGOA regime, eligible countries must import primary fabric material such as yarn-made apparel from the US market or from other African countries (rule known as the rule of origin). Chinese and Taiwanese companies partly obtain their supplies of yarn fabric from South Africa. But for long, the supplying sources have remained based in the US. The South African companies have limited capacity, especially in terms of man-made yarn. The decision to expand the supply of yarn fabric is a positive move though the measure remains restrictive. Until recently, countries were not allowed to use fabric from sources other than Africa or the US in the production of garments for exports to the United States. Due to chronic shortages in the US currency, many textile and garment manufacturing countries constantly run out of the needed fabric material. Sourcing in raw material (yarn, fabric and leather) has hampered the vertical integration of the textile integration and apparel industry. This has resulted in textile and apparel industry having a low impact on value-added and employment creation. The combination of the above-mentioned constraints poses serious limitations to the capacity of eligible African countries, including Swaziland and Lesotho, to increase their volumes of exports.

In recent years, the prevailing global economic crisis seems to have bitten hard into Swaziland’s and Lesotho’s exports to the US. In Swaziland for example, exports were reduced by about 139.9 million Emalangeni (SZL) (USD 18.8 million using the rate of 7.44 Emalangeni for 1 USD of that time), according to data produced by the US International Trade Commission data updated in December 2009 [Times of Swaziland, January 2010, p. 22].

Closing of garment factories and managerial accountability for poor performance

Employment conditions in the textile and garment industry are not only precarious in terms of welfare, but also in terms of how long the company will be effectively operating under AGOA. Closure without notice occurs frequently among foreign-owned factories. In some cases, the first sign notifying employees that the factory has ceased operation is a closed gate when they report in the morning for their daily work duties. A joke widely shared among female workers is “Chinese managers of bankrupt factories always depart at night to avoid being
accounted for unpaid wages to their employees”. The reason of closure is generally associated with a low level of orders. In some surprising cases, companies announce their closure a short time after they start operating. The case of a Chinese company officially opened by the King of Swaziland himself was reported in August 2003. After one year of operation, the company was on the verge of closure due to problems related to the textile markets in South Africa. In a first instance, the company resorted to retrenching some of the employees. This was however ruled out after negotiations with the labour department. In the end, the decision was taken to employ all its 600 employees on a part time basis. This option resulted in the employees being at work only three or four days a week. This example can be extended to other cases of closure that affect the dynamics of the clothing industry.

The end of quotas on fibres in 2004 has also had adverse effects on the life expectancy of Chinese companies. By way of illustration, nine companies ceased operation in Swaziland between April and December 2005.

**Factory infrastructure delivery**

As part of the incentives offered to investors under AGOA, the government of Swaziland has to provide a built site, in the form of closed sheds (the factory shell), to locate the equipment. The shell also serves as premises for the garment company. The shell is rented by the investor during the operation of the factory and remains the property of the state. From the government perspective, things are however not as simple as they appear through this arrangement. The construction of factory shells is a costly investment. The construction of factory shells, as part of the incentives package in place to attract FDIs under AGOA, has serious financial implications. This could have been the factor that motivated the government to recommend that the Swaziland Investment Promotion Authority (SIPA) reviews its negotiating approach with investors to be in line with a new financing mechanism for the factory shells. Based on the review, a proposal was made by the parliament to involve the private sector in the financing of factory shells on a built on terms (BOT) approach. The Economic Planning and Development Ministry reckoned that the decision to engage the private sector came as a result of government funds no longer coping with the demand for factory space by investors. For example, in the course of the 2003 planning exercise, the number of factory shells constructed by the government rose up to 20. At the beginning of 2004, the need for three factory shells was felt urgent, and due to the high costs involved in the delivery, the government was banking on the private sector initiative for the construction.

**Inability to move away from lower-end customer markets and promote original brands**

One area in which countries adhering to AGOA lack expertise is label designing. In the garment manufacturing, the design of labels is regarded as a means of boosting sales. Contrary to Asian firms, sub-Saharan African countries are still
lagging behind in this field. The information gathered from the fieldwork reveals that in Swaziland, the government was taking some steps in view of remedying the situation. With the removal of the quota system in 2005, garment companies have considered looking at higher level customers with world known label designers in order to remain competitive. Two names were particularly targeted, Tommy Hilfiger and Levi’s. This was in response to some concerns from manufacturers that clothes produced in Swaziland and Lesotho are essentially consumed by the lower markets. These include minor South African retail outlets having branches in the country. According to an interviewed foreign factory owner, the lower market consumption is related to the fact that “the textile industry in these two countries is very young and so is the skill base”. Despite this relatively young age in operation, the industry is regarded as being in a position to move a step further from producing for the low market to higher-level customers. The products are relatively competitive. In the view of many company managers, some of the textile products from Swaziland are similar to those produced overseas, including China. Thus, the removal of quotas is not an absolute threat. The production of garments of good quality is promoted to enable foreign-owned textile companies to move on and engage in exporting products for top name companies, especially in the area of sports. In the context where quotas have been removed, any textile and apparel company has to conduct business in higher-level management. Part of this effort should come from wage related incentives. Better industrial relations are to be revised for the betterment of workers. As examined later, wages paid to workers will have to be doubled by virtue of the fact that the companies will be producing for high-level consumers. Attracting additional investors may be viewed as a factor that will strengthen the industry. It has to remain strong to retain investors, even if quotas removal might result in some of them leaving a particular country.

Associated with the issue of label design is that of brand or, as Geriffi [1995] termed it, “original brand–name manufacturing”. This issue is not at the centre of the discussions on the AGOA agenda. In the new global economy, brands represent an important source of profits. In South-East Asia, garments companies have switched from producing products to marketing aspirations, images and lifestyles by lining up with well-known brands [The Economist, 2001]. Many apparel manufacturers have embarked on ambitious programs of forward integration into retailing using their own brand names and retail chains for the clothing they make [Geriffi, 1995]. The brand option, while still remote for relatively less-advanced African countries, establishes a benchmark against which the most ambitious export firms will be measured.

**Trans-shipment**

Trans-shipment is another growing malpractice affecting the textile industry. Trans-shipment is defined as an arrangement by a company manufacturing a product elsewhere and bringing it into the country only to sew on the “made in Swaziland” or “made in Lesotho” label and sending it overseas as goods made locally. With an increase in the trans-shipment cases reported in the sector
Involving the majority of companies, the fragile garment industry of these two countries face a real threat to AGOA eligibility. In Swaziland for example, the ministry for Enterprise and employment issued a warning threatening to close down the companies found to be trans-shipping their products. This practice represents a serious threat to the survival of the industry, as transhipment by a single company might disqualify the whole country from the African Growth and Opportunity Act (AGOA) benefits. A spot-check policy was commissioned by the Ministry to ensure there is no trans-shipment, and companies were called on to police one another on this matter. Under AGOA, the rules of origin are not clarified [DATA, 2003]. This lack of clarification has given way to a proliferation of trans-shipment practices. It transpired from the information collected from garment factory workers that some of the products on which they worked just required sawing labels and packing them into boxes for shipment. The origins of the products were not known, but the main destination was the US market. Taiwan is not eligible to duty-free exports to the US markets. The labelling of textile products in factories located in Swaziland falls in the category of trans-shipment. Some of the labels did not have the mention “made in Swaziland”, and such products were frequently suspected as being fraudulent. The lack of clarity has often resulted in the US customs denying duty free status to garments produced under the AGOA because some components of the garments are neither African nor American in origin. Uncertainty still prevails over what constitutes an AGOA eligible garment. As long as this is the case, most of the eligible African countries are not given the greatest latitude under the Act.

Incorporation of women in the garment manufacturing chain under AGOA and their increased exposure to income poverty

A distinctive demographic feature of Swaziland and Lesotho is the number of women in the total population, a situation that has profound effects on the social structure, economic organisation and status and role of women. One obvious consequence of the female predominance and of the male-out migration to South African mines is the incidence of female-headed households, especially in rural areas. For example, the 1997 population census of Swaziland revealed that 43 per cent of households were headed by females. In rural areas, the estimated percentage was 49 per cent in the 1997 population census. The rise in the number of women taking on more responsibility as heads of households has, among other factors, contributed to increased inflows of women in the garment industry.

In September 2004, official statistics was reported that 20,000 and 25,000 jobs were created through Taiwanese companies that invested in Swaziland and Lesotho respectively. Those companies were mainly in the textile and apparel industrial sector. The working conditions in the operating companies are far from decent in terms of social welfare. Allegations from concordant sources have been reported about ill treatments of workers through the textile industry. Poor working conditions include low wages (sometimes below the minimal wage in the sector), non-respect of the fortnight full payment, long working hours (over time) for a very
meagre pay, no off-days even during holidays and weekends, and lack of social protection. Female workers in garment factories are also exposed to all forms of harassment, ranging from insults and threats of suspension or lay off to sexual abuse from male supervisors, and they have no right to union membership. The fortnight pay, ranging from SZL 350 to SZL 490, only caters to food and the rent of a one room accommodation. The majority of women finding employment in the textile industry are young (in their early 20s), single mothers, and originate from rural areas. They are predominantly heads of households in peri-urban areas, with children in care. They migrate to town searching for a better life, and invariably find themselves in situations different from what they had anticipated when they left their homes. It is now very common to see these women queuing every day outside company premises for weeks, sometimes months, hoping to be hired. Those who are lucky enough to get the wanted job are employed mostly as trimmers, machinists and helpers. Onsite training is offered by more experimented former workers (local supervisors) or Chinese women recruited abroad. Jobs in the textile industry, though needed so much by those female workers, have not been of any meaningful assistance by way of uplifting their standard of living. Most of these female employees are accommodated in a one-room place for which they pay SZL 150-200 per month. A female employee (interviewed in September 2002), working as a sewing machinist, put it this way: “We are only here to while away time because frankly, what we are paid amounts to nothing if you look at the fact that we are paid less SZL 700 per month (equivalent to USD 70 in 2002), then it becomes obvious that we only work for food and rent”. She was employed at Proton, one of the companies in the textile sector, but previously worked with a company named Tuntex. In her previous position, she was paid a meagre SZL 350 per fortnight. Referring to this wage, she said “I now get less than SZL 350 per fortnight. From this amount, I have to pay rent, buy food and feed my children. We just work here to avoid falling into traps like prostitution because we might end up in the claws of serial killers. One has to reserve something for transport from this salary and forget about sending some money back home”. The act enacted in 2004 to regulate wages in the textile and apparel industry set the basic salary at SZL 205.5 per week for a sewing machinist, but in reality this woman was earning only SZL 175 per week. From 2001 to 2010, the level of the wages paid to female workers has almost remained the same, prompting employees either to resign or to look for better pay in rival companies. In Lesotho, female workers have been very active in joining the workers’ organisation LECAWU (Lesotho Clothing and Allied Workers Union), which thereafter became a target for repression by the government [Gibbs, 2005].

The allegations of poor conditions have been so strong that they have seen the intervention of government through the ministry of Enterprise and Employment. From spare investigations in these industrial issues, it has emerged that most Chinese operating in the apparel manufacturing industry do not consider the application of occupational and health safety standards of the Employment Act of 1962 and the industrial Act 2000. Female workers are exposed to numerous dangerous
elements that could compromise the employees’ health safety. When affected by such conditions, the employees receive no compensation from their employers. The life threatening conditions prevailing in the garment factories range from inhaling dust to fingers pricking and drinking contaminated water. All the allegations have been substantially documented, and the ministry of Employment and Enterprise have formulated some actions aimed at addressing the issues. It must be said, however, that the actions taken have had so far limited impacts. An interviewed nurse disclosed that most of the employees she has treated have chest infections that can be attributed to the lack of facial masks to avoid inhaling the dust coming from the material they work on. The dusty conditions and contaminated water increase the exposure of employees to chronic diseases, while the needles or other sharp instruments they work with can facilitate the spread of such diseases as HIV/AIDS, already in the rise in the country.

In Lesotho, most of the jobs created are taken up by female workers. Textile and apparel firms are established in special union-free export processing zones, and they are prone to controversial labour relations. It is alleged that these firms give preference to young female workers because they represent a cheap source of labour, not unionised, and their physical aptitudes to do the tasks required. Some analysts claim that these jobs might help to elevate women’s socio-economic status in the benefiting country, especially in situation when women have traditionally been predominantly left out of the labour force employed in the industrial sector.

Union activism has also made its way through a progressive mobilisation of women working in the garments industry. The protection of workers’ rights and health safety at work place are at the forefront of the union. In line with this, over the recent years, there has been intense union opposition to piece-rate payments and long working hours. On the side of firm managers, this opposition is viewed as an impediment to increased productivity because of the difficulty in having women work in the evenings. A visible effect of this union activism is the non-use of systematic night shifts in most of the firms. The union has suggested an alternative for firms to improve the quality of their products. But this requires long-term efforts and technological investments. Looking at this aspect from the perspective of clothing and footwear in Southern Africa, Coughlin, Rubin and Darga [2004] report that Swaziland, in particular, does not do well on the competitive aspect of quality by the internationally used norm of 15 per cent of sales returned because of poor quality. Despite this less-encouraging performance, manufacturers in Swaziland have however at times achieved results within international norms (reject below 5 per cent), which compares favourably to other AGOA eligible countries.

Foreign firms rely on expatriates from Taiwan and China. Locals are hardly represented at the managerial and supervisory levels. The Chinese line-supervisors and shop-floor manager poorly communicate with the local workers, as they have no knowledge of local language. Very few among them communicate in plain
English, which many female workers speak. Basic skills in sawing, weaving, knitting have been created through on-site training for low-end range production. But investors from these two countries make no efforts to infuse advanced skills across a wide range of tasks. Despite their long involvement in the industry, most firms have not achieved any recognisable amount of skills transfer to locals from basic production to supervisory levels.

In respect of the labour market outcomes, the experience of other developing countries with the export-garment industry suggests some marked negative evaluations. Most accounts on this insertion have emphasised the low gains, in terms of women empowerment, derived from the export-orientated strategy of growth [Murshid et al., 2003]. Some works have argued that working conditions are not decent for the women in the sector [Id21Insights, 2003], and in some situations these conditions are very close to being exploitative forms of women status [Murshid et al., 2003]. In others, it is argued that such strategy exacerbates wage inequalities between and within sectors [Id21insights, 2003], given the fact that unskilled women, massively employed in the textile sector, are the most affected by such inequalities in earnings [Winters, McCulloch, McKay, 2004].

Concluding remarks

This article has examined the extent to, and the conditions under which the garment industry of Lesotho and Swaziland expanded during the first fourth phases of AGOA. While positive trends have been recorded in terms of exports growth and job creation for women, the analysis provides evidence that there are internal and external factors impending on the capability of these two countries to reap greater benefits from the Act. It emerges from the issues examined that the industrialisation of Swaziland and Lesotho under AGOA can be termed a peripheral export-oriented industry inclusion as it does not reflect a full control over the garment chain in terms of ownership for both production and technological inputs. The Taiwanese firms benefit from what is known as “Asian connections”, a reference to close ties that they have with larger corporations operating in South-East Asia. These are multinational corporations that have complete control over the supplier chain of textile and apparel exports from Asia. Through organised and sophisticated business networks, they secure orders and contracts from global retailers around the world according to certain arrangements (quality, price and delivery) while providing to sub-contracting firms (based in low income countries) with designs, specifications, inputs, technical assistance and logistics [Lall, 2005]. Firms in Lesotho and Swaziland operate under these triangle-shaped linkages with corporations in Asia that are connected to global clothing markets. These linkages may offer similar trade-related competitive advantages to these two small countries, but at the same time it presents some impediments. All the benefits from AGOA accrue to the established network of Taiwanese firms because they had a monopoly on the textile industry prior AGOA. Geography imposes real-time barriers in reaching the markets, and its effects are accrued by the poor infrastructure
in the two countries. The long distance to US markets imposes higher transportation costs and constrains the ability to respond effectively to short-term changes in the conditions of those markets. Adding to these disadvantages is the land-locked nature of these countries. Like other agreements implicating the USA with less developed countries, AGOA may not represent a critical agreement to the United States from an economic perspective [Easterly, 2009], but this Free Trade Agreement has important geopolitical implications in further cementing US ties in Africa [Condon, Stern, 2010].

Textile and apparel industries of Lesotho and Swaziland are still characterised by very low levels of productivity with few prospects for substantial improvements relative to similar operations in East Asia. Productivity seems not to be determined by the equipment used and the organisational style of the production, as those are similar in East Asia. The low level of productivity is then difficult to explain, considering these similarities unless one looks at the wage payment system, skills, training arrangements and industrial relations. The remuneration of the workers particularly constrains productivity increase. Lall [2005] noted that in the case of Lesotho, the arrangements around the payment of payment of wages are not conducive to high motivation among the workers to increase labour outputs. In both countries, the labour code does not approve the practice of piece-rate. Workers are paid on a weekly or four-weekly basis. The amount varies according to the firm. Some garment firms have called for the implementation of piece-rate payment, widely used in other development countries and generally regarded as a way of increasing productivity. To firm owners, paying the same wages to workers with different levels of productivity is counter-productive, and few among them have implemented the piece-rate payment of wages. The position of labour unions aims to protect workers’ right to decent wages, as firms may set a very low rate, while at the same time imposing high target in outputs. According to Lall [2005], if AGOA comes to end, the existing wage payment system will not offer considerable comparative advantages to either country.

Employment-wise, the experience of Swaziland and Lesotho provides evidence of the absorption of women’s labour force into the garment industry under AGOA. For such countries with high unemployment rates, constantly around 25 per cent of the total work force, AGOA has provided a source of employment creation and relief on the labour market.

The absorption has however had two-sided outcomes on the lives of the thousands of women that have joined the industry. The flows of FDIs from Taiwan have driven out masses of women from poor homesteads in rural areas to work in the garment industry under the AGOA regime. By joining this industry, most women have found means of ensuring their family’s survival and personal prospects. However, the women employed in the industry are mostly uneducated and these jobs have a short lifespan. Not bringing in locals represents a serious threat to the future of this industry, needed for a lasting development. Analysts see the lack of political leadership as one of the major cause of not helping locals to
compete globally. Women do not have viable options for achieving their prospects, as chronic unemployment is pervasive in these two countries, especially in rural areas where most of these women migrated from. The development of industry under AGOA has given rise to increased exposure to non-decent work. At the centre of these interrelated sub-processes is the poverty trap in which these women find themselves. These inefficiencies need to be addressed as they amply confirm that export-oriented industry and trade liberalisation are not always the most important determinants of poverty reduction or that the static and micro-effects of liberalisation will always benefit to the recipient country. Poverty cannot be adequately tackled in the beneficiary country if investors do not comply with rules of good business practice. The discourse conveyed by international organisations in the like of WTO and World Bank exhort African countries to open their economies to FDIs and join the trade liberalisation movement in order to grow. It is however noted that the international framework of PTA tends to give greater protection to foreign investors than to the countries receiving FDI. While recognising the positive effects of country’s membership of PTA in attracting FDI, as pointed in Buther and Milner [2008] and Easterly [2009], investor behaviour’s monitoring should be part of the trade agreement as well. Although they cannot be seen as economically prosperous, Swaziland and Lesotho are two locations for FDIs with the lowest possible risks as they are politically and socially stable. The only major risk applicable to economic concerns is the fluctuations in the exchange rate. Thus, these countries can capitalise on these lower risks to attract more viable FDIs from other investors for their industrial development.

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