MULTI-FIBRE ARRANGEMENT (MFA) PHASE OUT:
THE CASE OF LESOTHO GARMENT INDUSTRY.

BY

MAKHALA ELIZABETH NKU
STUDENT NO:203520053

Submitted In Partial Fulfilment
Of the Requirements of the degree
Master in Business Administration

GRADUATE SCHOOL OF BUSINESS
UNIVERSITY OF KWAZULU NATAL, DURBAN

SUPERVISOR: MARCEL KOHLER

2006
DECLARATION

I hereby declare that this dissertation is my own work and in case where other people's work has been used it has been accordingly acknowledged. This dissertation has not been previously submitted for any degree in any university.

Makhala Nku

2006
ACKNOWLEDGEMENTS

"But by the grace of God I am what I am: and his grace which was bestowed upon me was not in vain; but I laboured more abundantly than they all: yet not I, but the grace of God which was with me." (1 Corinthians 15:10)

I would like to deeply thank various important people, too many to list here who, during the years of my study and in which this endeavor lasted, provided me with valuable and helpful assistance. Without their care, support and consideration, I would likely not have completed this research.

Most importantly, I would like to thank and express my sincere appreciation to my dearest of them all. My mother, Mary, my beloved sister, the late Mamoholi and my two brothers Motlatsi and Cheli for their unbelievable support, encouragement and understanding throughout my study.

Particular acknowledgments go to Oliver Mtapuri for his valuable insights, detailed critiques, assistance, and constant support throughout the development of this research. Thanks also go to Motlatsi Nku for editing and proof-reading this work.

I am indebted to my supervisor, Mr Marcel Kohler who contributed his time, effort, and expertise to help produce this piece of work.
ABSTRACT

The overarching objective of this study was to establish the extent to which the Multi-Fiber Arrangement impacted on the garment industry of the Kingdom of Lesotho. The quota system which controlled access to the world's biggest textile and clothing markets in the United States (US) and European Union (EU) namely Multi-fiber Arrangement (MFA) was incorporated in 1974. Nonetheless, with the thrust towards the increasingly liberal world market, MFA was abolished on 1 January 2005. As a result countries such as Lesotho had to compete on an equal footing with developed countries. Lesotho depends heavily on textile and clothing exports, thus, it is potentially vulnerable to this change in competitiveness. There have been predictions that the garment industry will suffer as a result of quota abolition and spell the end of thousand of jobs.

This study was conducted to understand the various implications of Multi-Fibre Arrangement phase out on the Lesotho garment industry. The study first examines the impact of MFA on the economic growth and employment in Lesotho. Then it determines the consequences of MFA phase out on workers and the garment industry, that is, whether this elimination badly affected the industry and workers. Lastly, it establishes if adequate actions or efforts have been undertaken to attenuate potential negative impacts on workers.

The results strongly indicate that MFA had contributed enormously to the Lesotho economic growth. The phasing out has led to job losses and disruption in the industry. However, programs have been put in place to mitigate and manage the negative impacts on workers such as providing training to workers with the aim of improving productivity. By the same token, recommendations have been suggested in order to address the impacts, such as to integrate vertically the industry to enhance production times.
## THE TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td>II</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>III</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>IV</td>
</tr>
<tr>
<td>THE TABLE OF CONTENTS</td>
<td>V</td>
</tr>
<tr>
<td>LIST OF TABLES AND FIGURES</td>
<td>VII</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>VIII</td>
</tr>
<tr>
<td>1.0 CHAPTER ONE INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Background to the research</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Motivation for the research</td>
<td>5</td>
</tr>
<tr>
<td>1.3 Value of the research</td>
<td>5</td>
</tr>
<tr>
<td>1.4 Problem Statement</td>
<td>6</td>
</tr>
<tr>
<td>1.5 Research Questions</td>
<td>6</td>
</tr>
<tr>
<td>1.6 Objectives of the study</td>
<td>7</td>
</tr>
<tr>
<td>1.7 Research Methodology</td>
<td>7</td>
</tr>
<tr>
<td>1.6.1 Sample selection</td>
<td>8</td>
</tr>
<tr>
<td>1.6.2 Procedures</td>
<td>9</td>
</tr>
<tr>
<td>1.6.3 Pilot testing</td>
<td>9</td>
</tr>
<tr>
<td>1.7 Data Analysis</td>
<td>10</td>
</tr>
<tr>
<td>1.8 Limitations of the research</td>
<td>10</td>
</tr>
<tr>
<td>1.9 Structure of the study</td>
<td>10</td>
</tr>
<tr>
<td>1.10 Conclusion</td>
<td>11</td>
</tr>
<tr>
<td>2.0 CHAPTER TWO LITERATURE REVIEW</td>
<td>12</td>
</tr>
<tr>
<td>2.1 Introduction</td>
<td>12</td>
</tr>
<tr>
<td>2.2 The Lesotho Garment Industry</td>
<td>13</td>
</tr>
<tr>
<td>2.3 Impact of Multi-Fibre Arrangement</td>
<td>16</td>
</tr>
<tr>
<td>2.4 Consequences of MFA Phase Out</td>
<td>18</td>
</tr>
<tr>
<td>2.4.1 The impact on economic growth</td>
<td>23</td>
</tr>
<tr>
<td>2.4.2 The impact on employment</td>
<td>24</td>
</tr>
<tr>
<td>2.4.3 The case of Bangladesh</td>
<td>25</td>
</tr>
<tr>
<td>2.5 Review of actions undertaken to deal with MFA phase out</td>
<td>28</td>
</tr>
</tbody>
</table>
3.0 CHAPTER THREE RESEARCH METHODOLOGY

3.1 INTRODUCTION

3.2 KIND OF STUDY

3.3 SAMPLING DESIGN

3.3.1 The Population

3.3.2 Sampling Procedure

3.3.3 Sampling Size

3.4 DATA COLLECTION METHODS

3.4.1 Pilot Study

3.4.2 Questionnaires

3.4.3 Focus Groups

3.5 DATA ANALYSIS

3.6 RELIABILITY AND VALIDITY

3.7 LIMITATIONS OF THE STUDY

3.8 CONCLUSION

4.0 CHAPTER FOUR FINDINGS/RESEARCH RESULTS

4.1 INTRODUCTION

4.2 QUESTIONNAIRES RESULTS

4.2.1 Theme 1 - The effects of MFA phase-out on workers

4.2.2 Theme 2 - The effects of MFA phase-out on the industry

4.2.3 Theme 3 - The responsibility to address the potential negative impact on workers

4.2.4 Theme 4 - Programs and opportunities for mitigating the potential negative impacts

4.2.5 Theme 5 - Engagement in discussions with all stakeholders to seek to address the issues surrounding the phase-out

4.3 FOCUS GROUPS RESULTS

4.3.1 Summary of the responses

4.4 CONCLUSION

5.0 CHAPTER FIVE RECOMMENDATIONS

5.1 INTRODUCTION

5.2 STRATEGIES

6.0 CHAPTER SIX CONCLUSION

BIBLIOGRAPHY

ANNEXURES
LIST OF TABLES AND FIGURES

Table 1 Stages of US and EU textile and apparel quota phase-out ........................................ 20

Figure 1 Head office Location .......................................................................................... 15
Figure 2 Clothing and textiles exports ............................................................................ 23
Figure 3 Employment level ............................................................................................. 24
LIST OF ABBREVIATIONS

ACP  African, Caribbean, Pacific
ACTIF African Cotton & Textile Industries Federation
AGOA African Growth and Opportunity Act
ATC Agreement on Textiles and Clothing
ETI Ethical Trade Initiative
EU European Union
FDI Foreign Direct Investment
FIAS Foreign Investment Advisory Service
FTA Free Trade Area
GATT General Agreement on Tariffs and Trade
GSP Generalised System of Preference
IMF International Monetary Fund
ITC International Trade Center
LCCI Lesotho Chamber of Commerce and Industry
LDC Least Developed Countries
LNDC Lesotho National Development Corporation
MFA Multi-Fibre Arrangement
MFN Most Favoured Nation
NIE Newly Industrialised Economies
SACU South African Customs Union
SADC Southern African Development Community
SME Small and Medium Enterprises
UNCTAD United Nations Conference on Trade and Development
US United States of America
USITC United States International Trade Commission
WTO World Trade Organisation
1.0 CHAPTER ONE INTRODUCTION

The research is an investigation of the effects of the phasing out of the Multi-fibre arrangement (MFA) in Lesotho. Although the MFA was a global arrangement, the investigation shall only be confined to how it has affected Lesotho as a least developed country. Several economic agreements exist whereby least developed countries come together for their economic survival of which the MFA is one of them.

The significance and motivation for the study is discussed in this chapter. The Central Bank of Lesotho’s economic review (2005) suggests that the expiration of the Multi-Fibre Arrangement has both positive and negative effects on the garment industry. Was the phase out detrimental to workers? This is one of the concerns that the present research wanted to investigate in order to unpack the impact of the MFA phase out.

1.1 Background to the research

In 1947, the General Agreement on Tariffs and Trade (GATT) agreement which was a multilateral agreement intended to provide an international forum to regulate, negotiate and reduce tariffs and trade barriers was signed. GATT’s general principles consisted of treating member countries equally without discrimination, eliminating quantitative restraints and negotiating tariffs.

In order to give effect to the GATT principles and agreements within the framework of an international organization, the World Trade Organisation (WTO) came into being in 1995. Over and above the GATT principles and agreements which it adopted, the WTO was assigned additional responsibilities by its members. Because GATT permitted individual country quotas, MFA had to be administered outside this configuration.
MFA is an agreement that governed garment and textiles imports to European Union and the United States through a system of quotas. It was established in 1974. It provided a temporary measure to the industrialising countries (developing and least developed countries) to adapt to the global market while giving them access to markets and protection from global competition.

MFA quotas limited access of the world’s largest garment exporters to the United States market as well as to markets of other highly developed countries. During the Uruguay round negotiations, members reached a consensus to discontinue from entering in any arrangement involving voluntary restraints and quantitative restrictions. Hence, textile and apparel trade would revert to treatment according to standard GATT principles. Now, because the MFA has expired and would not be renewed, developing and least developed countries have to compete with the world’s largest and efficient garment exporters such as China.

Lesotho, as a member of World Trade Organisation (WTO), is able to participate in the global trading system. This translates to easy access to many markets with network of trade preferences and agreements playing a crucial role in the range. Lesotho’s manufacturing sector, particularly the textile industry, is a small economic sector experiencing fast growth coupled with increasing employment levels.

Garment production for export has increased dramatically over the last decade. Growth in the sector led to tremendous job creation with the primary beneficiaries being the urban poor and mostly women. In addition, the garment industry offered opportunities for sub-contracts to small to medium enterprises (SMME’s).
Favourable agreements have opened up innumerable opportunities for companies to increase their participation in international trade and a large number of foreign companies have successfully established manufacturing bases in the Kingdom of Lesotho, not only serving the local market but also tapping into export opportunities.

Lesotho’s economy is being transformed drastically through the manufacturing sector especially by Taiwanese investors who are largely in the garment industry. Taiwanese textile and clothing companies established factories in the country supplying to the United States of America (USA) several popular brands such as Gap, Levi, lolly togs to name a few.

Tariff and quota free access offered an advantage to Taiwanese producers in Lesotho. Lesotho’s exports to USA comprising almost exclusively clothing can be attributed to Taiwanese firms that invested in the country to serve the US market as a consequence of the Multi-Fibre Arrangement. As a result, Lesotho emerged as the largest exporter of garments to the US market. Its performance in the international market has been remarkably outstanding. Lesotho contributed 30 percent of the U.S. garment market (Lesotho National Development Corporation, 2004)

Manufacturing for export is a driving force behind economic development creating as a consequence high potential for attracting foreign direct investment. In recent years there has been an inflow of foreign direct investment (FDI) into the Lesotho manufacturing sector mainly from Taiwanese companies. FDI has made a significant impact on transforming the geographical pattern of Lesotho’s trade. The importance of textiles and clothing industry lies in its ability to empower Basotho and create job opportunities.
Even though, MFA provides potentially large opportunities in the garment industry, one aspect of MFA is that the relaxed rules of origin for the least developed countries (LDC) expired in 2004. Apparently, Lesotho's exporters of garments were competitive under MFA arrangements. Perhaps their performance augured ill for the country's competitiveness once MFA was abolished. Considering that Lesotho's industrial base is still narrow, resulting in a few products that are competitive in international markets, concerns abound about the prospects for survival in the post-MFA environment.

Though rapid expansion in garment exports to US has contributed to economic growth in Lesotho, a question arises as to whether Lesotho has good prospects for expanding and sustaining the garment business without the MFA agreement. In other words, how well is Lesotho prepared to face the challenges posed by intense competitive and changing global markets? Will foreign firms turn out to be 'footloose' and leave Lesotho?

Have the Basotho been properly trained and sufficiently developed support structures to allow them to carry the clothing industry to another level? In December 2004, Lesotho experienced a considerable decline in manufacturing employment due to the elimination of the quotas. For instance, at least four companies which roughly employed 4,570 workers closed down leaving that number of Basotho jobless (Economic review of Central Bank of Lesotho, 2005).
1.2 Motivation for the research
This research was motivated by the fact that five factories in Lesotho, namely, Lesotho Haps, Vogue landmark, TW Garments, Hong Kong international knitters and Leisure garments closed down at the end of 2004 and others left without informing and paying their employees. Close to 6000 workers have lost their jobs and there is also a fear among workers that the remaining firms will follow suit.

It is against this backdrop that this research seeks to investigate the reasons behind these closures and unpack their impacts on stakeholders and reflect on what has been done so far to mitigate the situation. Apparently, the closure of garment factories is associated with the end of worldwide textile quotas.

Consequently, this caused a decline in the economic growth of Lesotho as it is dependent to a large degree on manufacturing which contributes 20% to the country’s gross domestic product. After China’s liberation from the quota system, its powerful garment industry exported its cheap products into the American market, thus, making it difficult, if not impossible, for Lesotho to compete in the global textile market.

1.3 Value of the research
This research is expected to demonstrate the effects of the elimination of quotas on workers, other stakeholders and the garment industry as a whole. Since the Multi-Fibre Arrangement was originally intended to uplift infant industries such as existing in Lesotho, its end came as a shock to the society. It is from this study that companies and workers as well as other stakeholders such as the government will gain knowledge of what is going on within the garment industry as well as the appropriate strategies that have to be implemented.
The results will also enable management to understand how other companies have adopted strategies to mitigate the impacts of the quota phase out. Above all, very little is known about the implications of Multi-Fibre Arrangement phase out on Lesotho garment industry. The study will, thus, enlighten management of textile industries and trade unionists about possible loopholes in the industry; create an opportunity for other researchers to find out more about the industry in order to deduce best practice and build upon this research in order to understand the industry’s dynamics better.

1.4 Problem Statement

Without the MFA it is doubtful if a country such as Lesotho would have seen the development of significant textiles and clothing export industry. The concern here is whether Lesotho will survive in a quota-free environment. It is difficult to predict how the country will fare after the abolition of the quota system in 2004. There had been predictions that the garment industry including workers will suffer once quotas are phased out. The ending of garment quotas implies extensive restructuring of the world textile industry and could also spell the end of thousands of jobs.

1.5 Research Questions

This study addressed a number of research questions that will enable us to understand the various implications of Multi-Fibre Arrangement phase out on Lesotho garment industry. The first question examined the impact of MFA on economic growth and employment in Lesotho. The second question determined the consequences of MFA phase out on workers and the garment industry and specifically, whether this elimination badly affected the industry and workers? The third question addressed whether actions or efforts were undertaken to attenuate potential dislocation.
1.6 Objectives of the study
The objectives of the study are as follows:

- To establish the extent to which the Multi-Fibre Arrangement impacted on the garment industry as it is organized in Lesotho;

- To establish the extent to which the phasing out of the arrangement has impacted and may continue to impact on the industry;

- To examine the general effects of the garment industry on the economy of the country and especially within the framework of the Vision 2020 and Poverty Reduction Strategy Paper in the country; and

- To discuss and recommend workable solutions in the context of a policy framework postulated by the stakeholders. (The Textile Industry, Government, Unions, Financial Institutions, Lesotho National Development Corporation and the Business Sector).

1.7 Research Methodology
The study methods used were a combination of a survey and a case study. The case study was used to examine and describe mainly the opinions of the subjects. These methods helped the researcher to gain a clear understanding of different views from all stakeholders with regard to the effects of MFA. The research is qualitative in nature. It sought to address the overall objective and specific aims of the study and to a large measure managed to do so.
A survey, using questionnaires was used to collect data from various sources. Interviews were also conducted with selected individuals from the subjects list. Both primary and secondary data was used in addition to the survey method. Focus group discussions were conducted with workers to gain their descriptive opinions and perceptions on the consequences of the MFA phase out.

1.6.1 Sample selection
The population for the study included:

- companies within the garment industry;
- Lesotho Chamber of Commerce and Industry;
- Ministry of Trade and Industry; and
- Trade union associations.

A sample was selected randomly from 26 garment companies which are members of Lesotho Exporters Association. A representative from non-governmental organizations (NGO's); government and unions associations were also included in the sample.

Thus, companies in the sample were identified from the source, that is, Lesotho textiles association. These companies are located in the following industrial areas: Maputsoe, Mafeteng, Thetsane and Maseru. This population was chosen because it is mainly involved in trading of textile. The information from this population helped the researcher to identify the social and economic implications faced by Lesotho and the opportunities for the affected workers particularly in the garment industry due to the phase out of the import quota.
1.6.2 Procedures
A questionnaire was developed with questions that addressed the objectives of the study. The questionnaire consisted of both open-ended and closed ended questions. The questions asked varied according to the different roles of the subjects in relation to the MFA. For instance Employers’ questions differed from employees’ questions. Government, Lesotho Chamber of Commerce, Lesotho National Development Corporation questions were structured in line with their role as policy shakers and makers.

1.6.3 Pilot testing
A pilot-test was conducted after which the appropriateness for inclusion of questions as well as clarity and readability of the survey instrument was made. Questionnaires were delivered by hand and collected later (delivery and collection of questionnaires) to a sample that was selected from the population and appointments were arranged for the face to face interviews as a follow-up to the questionnaire where deemed necessary to fill in information gaps.

During the follow-up-to-the-questionnaire-interviews particular attention was paid to those aspects of the questionnaire which were not answered. Questionnaires were sent with a covering letter to the senior executive of each firm, who was requested either to complete it personally or refer it to the most appropriate person for completion. The covering letter explained the purpose of the study and offered the respondent a copy of the results in exchange for their co-operation. The letter also guaranteed complete confidentiality of the information provided.
1.7 Data analysis
Data was sourced from both primary and secondary information. It included both raw data and published summaries. Thematic content analysis was employed to assist in the analysis of research data.

1.8 Limitations of the research
Due to the limited time and cost constraint, it was difficult to access some of the information as most of the factories are owned by foreigners and their administrative issues are run by their parent companies overseas. Such factories were reluctant to divulge sensitive information which they considered as trade secrets. The researcher has never conducted a research project before or in any case got involved in any work to do with research. Thus, it was an eye-opening experience to the researcher. Accuracy is the degree to which bias is absent from the sample. This is difficult to avoid because even the large samples cannot counteract systematic bias. Sampling error occurred due to random fluctuations inherent in the sampling process.

1.9 Structure of the study
The study is composed of five specified chapters. These chapters are classified in such a way that it provides a clear picture of understanding the research topic, theoretical aspects, methods of collecting data and analysis of data. Chapter 1 is the introduction. Review of literature in relation to MFA is looked at in chapter 2. The research methodology is covered in chapter 3. Chapter 4 presents the findings. The recommendations are presented in chapter 5. Chapter 6 concludes.
1.10 Conclusion

This introductory chapter relates the whole picture of what the study entails. It indicates the questions to be answered as well as the specific aims of the study. The motive behind this study is to explore various implications of multi-fiber arrangement phase out on the garment industry focusing mainly on economy and employment. It is anticipated to find whether the decline in economic growth and loss of jobs as a result of factories closing down is due to the abolition of quotes under MFA. The next chapter will unpack the theoretical aspects of MFA with this perspective in mind.
2.0 CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

‘Without the MFA, it is doubtful if countries such as Sri Lanka, Bangladesh or Indonesia would have seen the development of a significant textiles and clothing export industry. Thus the MFA, initially a temporary protection mechanism for the industrialised world’s textiles and clothing industry, became the catalyst for the industry’s surge across the developing world’ (Kearney, 2003).

This chapter explores relevant literature with regard to the MFA and its phasing out in Lesotho. It seeks to address the following issues:

- Lesotho garment industry;
- The impact of Multi-fiber Arrangement;
- The consequences of abolition of quotas on the industry and the workers; and
- Actions to mitigate the effects of abolitions of quotas.

First of all, the chapter will begin with the introduction of Lesotho garment industry; it will discuss how the industry evolved, its engagement and participation in international trade taking into consideration the trade agreements. Secondly, it will investigate the impact of Multi-Fiber Arrangement in connection with its contributions to the economic growth and employment.

Thirdly, it will look at the consequences of MFA phase out particularly on the industry and workers. A case study of Bangladesh will also be discussed. Lastly, it will also look at actions and efforts to be implemented by stakeholders in order to mitigate the effects of abolition of quotas so as to rescue the vulnerable countries will be determined.
2.2 The Lesotho garment industry

The Lesotho National Development Corporation (LNDC) is a body in Lesotho that is responsible for promoting industrial growth in Lesotho. The Ministry of Trade and Industry is responsible for policies conducive to a favourable investment climate in the country. It is expected therefore that most reports dealing with issues of trade agreements and studies for feasibility and marketability of the manufacturing and other industries will be conducted and housed within these two main bodies. One such study is the Investment Policy Review undertaken on behalf of the Lesotho government by the United Nations (UN) under the auspices of United Nations Conference on Trade and Development (UNCTAD).

Lesotho is a small land-locked, least developed country (LDC) with a rugged, mountainous terrain and few endowments other than the natural beauty of its environment, water, cheap labour; and some deposits of minerals and diamonds. Yet, Lesotho has been able to attract foreign direct investment because of the trade preferences allowed by the development provisions of the World Trade Organisations Agreements.

According to the Investment Policy Review of Lesotho (2003), the economy depends for growth, employment and export revenues on a manufacturing sector that is driven entirely by the export-oriented FDI in the apparel industry. The garment industry is labour intensive and has created employment for women, thus, contributing significantly to poverty reduction among the poor Basotho urban.

The Lesotho garment industry started way back in 1980s to take advantage of various trade agreements with the Western world. Salm, Grant, Green, Haycock and Raimondo (2002) note that goods produced in Lesotho benefited under the Generalised System of Preference (GSP), from a preferential duty regime into
markets of US, Canada and European countries. It also received preferential access in the US market as a result of the MFA which was phased out in 2005. Similarly, Textile Outlook International (2002) indicates that Lesotho is enjoying the benefits of other trade agreements such as:

- **South African Customs Union (SACU)**
  Lesotho as a member of SACU is entitled to import raw materials duty-free from other SACU members\(^1\) as well as exporting finished goods to other SACU members including South Africa.

- **Southern African Development Community (SADC)**
  The intention of SADC\(^2\) is to promote intra-regional trade by reducing tariffs as low as possible. It is believed that low tariffs will help member countries to source raw materials from each other in order to secure AGOA benefits.

- **COTONOU**
  The Cotonou agreement\(^3\) replaced European Union - African, Caribbean, Pacific (EU-ACP) Lome convention. It grants textile and clothing manufacturers located in Sub-Saharan African and other ACP countries preferential treatment, that is, quota and tariff free access to the European countries.

---

\(^1\) SACU members are Botswana, Lesotho, Namibia, South Africa and Swaziland

\(^2\) It comprises Angola, Botswana, Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

\(^3\) It was signed in Cotonou in June 2000
• **African Growth and Opportunity Act (AGOA)**

Likewise, AGOA offers preferential access to garments made in Sub-Saharan Africa to the USA markets. However, the exporting countries are subject to compliance with the rules of origin.

A majority of the investors in the garment industry sector originate from Southeast Asia. Most factories are subsidiaries of Chinese and Taiwanese owned companies and are headquartered in Hong Kong and Taiwan. Salm et al (2002) indicate that 25 factories are subsidiaries of Taiwanese companies, and few others are subsidiaries of South African, Israel and Singapore countries and one is based in Lesotho as depicted below:

![Figure 1 Head office Location](image)


---

4 It is a cornerstone of the US' trade and investment policy towards sub-Saharan Africa
A Foreign Investment Advisory Service (FIAS) project proposal reveals that procurement orders of the factories in Lesotho are processed by manufacturing head offices in Asia. As a result, those factories do not have direct influence on their production. In fact, Asian investors engage in triangle manufacturing. It is a practise whereby US buyers place their orders with producers in Newly Industrialised Economies (NIE) countries who in turn shift production to their wholly owned subsidiaries in low cost countries. The process starts when an order is placed and ends when the finished goods are directly shipped to the buyer (Gereffi 2002).

Nevertheless, the garment industry sector is faced with serious challenges with regard to the preferential access. Sandrey, Matlanyane, Maleleka, and Van Seventer (2005) reveal the challenges as:

1. The wearing down of preferences resulting from WTO and many countries negotiating Free Trade Area (FTA) with US.
2. The phasing out of the MFA which caused Lesotho to experience declining orders from retailers.

2.3 Impact of Multi-Fibre Arrangement

The one WTO agreement that is the subject of the study is the Multi-Fibre Arrangement whose phasing out is expected to impact negatively on the Foreign Direct Investment in the clothing manufacturing industry. Appelbaum, Bonacich and Quan, (2005) note that the quota system that was put in place by MFA has been the driving force for the globalisation of textile and clothing production. MFA created restrictions on the textile and clothing imports to United States, European Union and Canada through agreements between trading partners.

According to Gwartney, Stroup and Sobel (1998) import quota is a maximum quantity of goods allowed to be imported into a country. The primary purpose of quotas is to protect infant industries. Infant industry argument is one of the valid arguments for protecting certain industries from foreign competitors. It holds that new
industries should be protected from older, more established foreign competitors, with the hope that as they grow and mature, they can stand on their own therefore compete effectively, and then protection can be abolished. Mohr, Fourie and associates (2004) reveal that for these new industries to develop they need temporary support and protection from competition by their respective governments through tariffs and import quotas. The main aim is to let them establish a foothold.

Infant industries in developing countries such as manufacturing cannot compete with counter-part industries in developed countries due to their potential comparative advantage in this industry. As a result, many countries find that there is a need to harmonise their trade policies through international agreements in order to avoid being caught in destructive trade wars.

Hence, most Least Developed Countries (LDC) governments embraced General Agreement on Tariffs and Trade (GATT) as it justified reasons for protectionism. Krugman and Obstfeld (2003) state that the garment and apparel industries in most countries (developing and least developed countries) have been protected through import quotas subject to Multi Fibre Arrangement. Yilmaz (2003) points out that MFA quota restriction have had crucial impact on production location and expansion of trade in textiles & clothing, particularly in Asia, where countries that had exhausted their quotas in industrial markets shifted production to new locations using them as bases for exports.

MFA distributes textile and apparel production around the world in a way that retailers are able to order items from countries which have not reached their quota limitation, when other country’s quotas were reached (Appelbaum et al, 2005). MFA made it possible for countries such as Lesotho (which could not create a garment industry on its own) to produce garments for export to US, EU and Canada. The
Economic Review of the Central Bank of Lesotho (2004) states that the major benefit of the agreement was to further boost export growth, increase export earnings, create employment and help in poverty reduction.

However, it is anticipated that abolition of textile and apparel quotas will in fact benefit a small number of developing countries, that is, those countries that hold a robust and diversified mix of textile and apparel products. According to Appelbaum (2004) these countries employ:

- full-package production;
- Produce high-quality, high value-added products; and
- Possess diverse markets outside the US and EU.

In light of this issue, LDCs such as Lesotho, Kenya and Nicaragua which are in highly constrained quota categories lose their advantage when such constraints are eliminated. Consequently, there is a higher probability that these countries will notice a decline in their market share which may even drive them out of the market.

2.4 Consequences of MFA phase out

Krueger (1998) states that MFA was established under GATT to regulate the global trade in textile and apparel products. It served to set limits - called quotas - on exports from major producers and increased market access for poor countries. However, most researchers are now of the opinion that the MFA was the most prohibitive international agreement for manufactured products. For example, Cline (1994) asserts that garment and apparel industries, unlike any other sector, have been overly protected for many years. As a result this contradicted the original intention of providing temporary relief so that industries could adjust and become sufficiently competitive in the global market.
Again quotas were inconsistent with the GATT’s general principle of most-favoured nation treatment, that is, treating other people equally and that countries will not discriminate other trading partners (Appelbaum, 2003). This issue was protested strongly in the Uruguay Round negotiations in the GATT by members of World Trade Organisation.

Eventually, the agreement to abolish MFA was accomplished in Uruguay. Hence garment and apparel trade will revert to treatment as per standard GATT principles. Nasi (2001:4) states ‘The Uruguay round made a commitment to end the MFA and bilateral export restraints and to restore normal GATT rules by 2005. The use of safeguards for textile products, however, will not be in place when least developed countries export a volume of textiles or clothing that accounts for only a small percentage of the total purchase of this type of product by importing countries’.

As part of the negotiations, MFA was replaced by Agreement on Textiles and Clothing (ATC). The ATC was set up to facilitate the phasing out of the quotas on textiles and apparel. It was agreed upon that the phasing out will be carried out in 4 stages over a 10 year period commencing January 1995 ending January 2005.

The first three stages applied to products which were imports under the quota levels, therefore, had minimal effects. However, the last stage which applied to products that were strongly restrained by the use of quotas was anticipated to have serious effects. The table below depicts the phases of United States and European Union textile and apparel quota phase-out.

---

5 The eighth round of global trade negotiations carried out under the GATT began in 1986, with a meeting at the coastal resort of Punta del Este, Uruguay.
Table 1 Stages of US and EU textile and apparel quota phase-out

<table>
<thead>
<tr>
<th>Stage</th>
<th>Component 1</th>
<th>Component 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share of importing country's textile and apparel trade to be free of quota (% of 1990 import quantity)</td>
<td>Growth rates in remaining quotas (%)</td>
</tr>
<tr>
<td>1995-1997</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>1998-2001</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>2002-2004</td>
<td>18</td>
<td>27</td>
</tr>
<tr>
<td>2005</td>
<td>49</td>
<td>No quotas</td>
</tr>
</tbody>
</table>


The U.S International Trade Commission (USITC) (2004) says that the phasing out calls for developing countries to permit greater access to their markets for products from developed countries and for trade with each other. Likewise, McCulloch, Winters and Cirera (2003) affirm that the major reason to end MFA was associated with the issue of liberalising trade in manufacturing industries. According to USITC (2004), the US has textile and apparel quotas with 46 countries, of whom 37 are members of WTO while 9 countries are non-WTO members such as China and Taiwan. Even though these non-WTO members have quota agreements with US, they are not eligible for quota liberalization unless they become members of WTO.

Although some of the countries, especially developed countries, will benefit from this agreement, the developing countries will lose, particularly those that have no comparative advantage in the sector. Knappe (2005) notes that due to the abolition of quotas, there will be potential winners and losers. He indicates that losers will be countries which:
• Were not able to fully use quotas prior to its abolition as they won’t be able to face the intensity of global competition.

Whereas winners will be those countries which
• Fully utilized their quotas prior 2005 as their exports will increase after the end of quotas.
• Will be able to exploit liberalized categories such as China which increased its exports to USA market to 100%.

Lee (2004) insinuates that US companies such as Gap and Levi-Strauss are likely to trim down the number of countries it sources textiles from. Due to quotas, these companies produced their garments in almost 50 different countries, but these numbers will be reduced to at least 20 as a result of the phase out. He also notes that many European countries are anticipating seeing large parts of their production going to China. The reason behind this dislocation is that many western firms want to take advantage of low labour costs in China.

Removal of quotas provides countries such as China and India access to USA markets. It is believed that these countries given the chance will crowd and dominate USA markets due to their competence in lead time, low cost, cheap labour and other factors.

‘China is leading a race to the bottom, which will quickly drive other developing nations out of the market. Often, prices are cut in such a proportion that competitors cannot possibly cope with the pressure. In some categories of imports into the European Union, China’s prices are 30-35% lower than world-wide prices. As a consequence, China has gained extremely large market shares against which no one can compete’ (Kearney, 2003).
For that reason, the Central Bank of Lesotho in its Economic Review (2004) declares that SADC member countries will lose their market share as they are located far away from the USA and their economies will suffer. Consequently, Lesotho garments products will lose their competitiveness leading to lower demand of products from Lesotho. In essence, lower demand means decline in orders and decelerating of production which have a negative effect on the economic growth and employment of the country.

Zoellick (2004) argues that the impact of MFA phase out differs from country to country. Phasing out of the quotas for each country may present an opportunity and pose a threat. An opportunity can be characterised by markets which will no longer be restricted and a threat because markets will be open to intense competition. For instance, a production shift from low cost countries poses a threat to countries such as Lesotho but presents an opportunity to countries like China.

However, Appelbaum (2003) indicates that industries in countries which are mostly affected by MFA phase out are inefficient characterised with low productivity and poor quality. They lack product diversity and are solely dependent on a single market, that is, US and EU. He further adds that such industries are short of resources to diversify vertically through both backward linkages to indigenous textiles and forward linkages to markets rather than sitting at the bottom of the value chain assembling work.
2.4.1 The impact on economic growth
Economic review of Central Bank Lesotho (2005) states that Lesotho’s economic growth has been hampered by the abolition of quotas since the garment industry was the engine of Lesotho’s economy. Garment industry had held a larger share of overall exports and had contributed significantly to foreign exchange earnings. The removal of quotas caused a decrease in overall exports and foreign exchange earnings as can be shown in the diagram below.

**Figure 2 Clothing and textiles exports**

![Graph showing clothing and textiles exports](image)

Source: Central Bank Lesotho Economic Review, No. 56 April 2005

Economic review of Central Bank Lesotho (2005) indicates that textile exports plunged during the trimester of the MFA expiration. He associates the economic decline to loss of market access in the USA as a result of MFA phase out.
2.4.2 The impact on employment
Regrettably, the loss will be felt mostly by workers. Therefore, safety nets should be in place for victims of MFA phase-out. Bedi (2005, 2) notes ‘Africa is the only region that has seen growth transformed into decline…’ due to the demise of quota. He further indicates that factories closed down causing loss of jobs in African countries such as Kenya, Lesotho, Madagascar, Mauritius, Namibia, South Africa and Swaziland. According to Catalyst the end of quotas resulted in six factories shutting down and 6500 jobs lost in Lesotho.

According to Dr Thahane, (Public Eye, 2006) employment in Lesotho garment industry plummeted since 2005 from over 50000 to 37500. Economic Review of Central Bank of Lesotho (2005) affirms that the phasing out of the quota has impacted negatively on employment in the garment industry. A graph below depicts that the number of workers in the garment industry was stable prior to the phase out but fell sharply immediately after the phase out due to job losses.

Figure 3 Employment level

![Graph showing employment level in Lesotho garment industry.](image)

Source: Central Bank Lesotho Economic Review, No. 56 April 2005

---

6 A newsletter of the ComMark Trust
2.4.3 The case of Bangladesh

It is imperative at this juncture to present the case of Bangladesh as an example of a country which is similar to Lesotho and whose garment industry benefited from the quota system but was impacted negatively by the removal of quotas. The case is reviewed in an effort to learn how the Bangladesh garment industry has been impacted by quotas and the consequent phase out and also to find out how it has been responding to address the challenges brought about by the removal of quotas.

Studies indicate that Bangladesh is one of LDCs which has been strongly impacted by MFA. Appelbaum (2004) notes that Bangladesh’s garment industry is dependent on the export of low-cost ready-made garments - a sector that roughly employed 90% of women offering very low wages that are consonant with their low levels of productivity. Exports to the EU benefited from trade agreements which allowed duty free access such as GSP as well as Cotonou agreements.

Appelbaum (2004) states that in 1998 Bangladesh was able to double its production of export-quality knit and woven fabrics. It reduced lead times, increased its value-addition and became more competitive in terms of price. Rahman (2005) indicated that the garment industry employed close to 1.8 million workers in 3600 factories of whom 70% were women. As a result, its garment exports climbed from US$ 2 million in the early 1980’s to about US$ 4 million in 2000.

However, the abolition of quotas has impacted negatively on Bangladesh garment industries as it finds it difficult to compete with China and India. According to Rahman (2005) ‘...the thrust of the impact of MFA quota de-restriction was felt all at once’. He notes that Bangladesh’s export of apparels to the U.S. market declined from US$ 1956 million to US$ 1629 million between 2002 and 2004. This deceleration took place in categories which have not been derestricted, substantiating the argument.
that in the new trading regime in apparels, factors other than quota elimination are also at play including China’s enhanced entry into the U.S. market following quota elimination.

Bhattacharya and Rahman (2000) point out that the end of MFA could cause the yarn and textile prices to rise for Bangladesh only if exporting countries redirect these products to their own garment industries. It would be difficult for Bangladesh to compete globally. Among other reasons, Hale and Hurley (2005) reveal that other stumbling blocks for Bangladesh to compete include dependency on foreign design and technology repairs. It has weak spinning, weaving and dying industries which propels it to source or import raw materials elsewhere. Likewise, Chowdhury and Ahamed (2005) indicate that the impact of the MFA phase out was related to significant job losses, reduction in wages; worsening working conditions and insecure social life for the workers.

Bangladesh took time to prepare to face a quota free world due to lack of coordination and organization among government, manufacturers and trade unions. This problem was compounded by the lack of trust between employer associations and workers. However, other stakeholders believed that it was government’s responsibility to initiate programmes aimed at handling the challenges brought about by MFA phase out.

According to Chowdhury and Ahamed (2005), the Government of Bangladesh organized discussions with different stakeholders in order to draw an action plan to face a quota free world. The government through the National Board of Revenue and the Bond Commissionerate undertook initiatives to reduce to bare bones the customs formalities in order to lessen the lead time. It also created a central bonded warehouse and excused 100% export oriented industries from VAT in handling charges in port
operations, freight forwarding, clearing and forwarding, shipping and insurance. It was believed that by so doing products would become more price competitive in the global market.

The government implemented an initiative to retrain retrenched workers. Thus, funds were allocated to the Ministry of Labour and Employment to facilitate retraining of workers and rehabilitation of retrenched workers. In order to enhance productivity, technical and vocational education was highly required. As a result, the government introduced double shifts in technical institutions to foster technical and vocational education. Moreover, the government found it pertinent to continue to lobby for relaxed rules of origin in the EU under GSP scheme since the zero-tariff access facility provided by EU contributed to Bangladesh’s growth in exports.

Furthermore, Rahman (2005) puts forward the other strategies that Bangladesh proposed as a way of addressing the post-MFA challenges:

- The stakeholders forwarded a proposal of a Contingency Fund to be created with support from government and entrepreneurs’ association. This fund was used to upgrade skills to improve productivity, re-skill employees to be able to find other ways to generate income and also offer credit facilities to redundant workers.

- Establishment of strong backward linkage in spinning and weaving (for producing fabrics). This would boost its competitive strength as well as decreasing lead time. In light of the above, concerted efforts were directed to improving infrastructure services and port facilities. An investment environment became conducive, that is, free of administrative hassles in order to reduce the cost of doing business. For instance, the number of steps with regard to customs clearance has been reduced from 56 to 12 and Bangladesh
amended the schedule of down payment for repayment of loans by entrepreneurs.

- Government of Bangladesh established the Post-MFA Implementation Team which discovered six areas such as productivity management, quality management, compliance norms, merchandising, marketing and inventory management for training and upgrading even though it had limited funds to finance these activities.

Chowdhury and Ahamed (2005) point out that in order to enhance its global competitiveness, Bangladesh took steps to improve the infrastructure and enhance worker skill levels. It built new yarn and fabric production capacity in order to reduce the industry’s reliance on imported inputs. It also endeavoured to liberalise trade and investment policies to attract FDI, obtain new technologies and enter into in new export markets.

2.5 Review of actions undertaken to deal with MFA phase out

Cline (1994) suggests that ‘improved programs of adjustment’ should be implemented as an assurance to existing workers that they would not suffer any pain for the public’s benefits from open trade policy. According to MFA forum (2005), governments, employers, trade unions, development organizations and Non-Governmental Organisations (NGO’s) have to identify the opportunities and ways to mitigate the effects of the phasing out.

During the Ethical Trade Initiative (ETI) seminar held in London on the 27 October 2004, suggestions were tabled on possible tactics which local stakeholders could engage on in order to assist garment industries to remain in the market. Participants suggested that the exporting government must stimulate the competitiveness of their garment industries and protect workers by:
• Broadening the manufacturing base instead of focusing on one or two links in the value chain.
• Offering training on management skills to workers and re-training those that have to be retrenched as a result of MFA.
• Introducing legal mechanisms in order to protect workers against overnight closures.

Speakers also indicated that importing government must take action and show responsibility with regard to the effects of MFA. They insinuated that importing governments should take the lead in negotiating with WTO to address these issues and adopt trade policies that would enable nascent industries to survive in the long run. Again, that importing governments must ensure that companies practice ethical trade when sourcing and must engage in corporate social responsibility.

ETI participants show that suppliers also should get involved by offering training to managers in order to upgrade their marketing skills and should invest in up-to-date technology to match with the changing economy. It is the suppliers’ responsibility to conform to national labour legislation and international labour standards so as to curb workers exploitation.

Suggestions were also raised in the ETI seminar that international institutions should also take part by providing financial assistance to the affected governments. Bas (2004) states that the International Monetary Fund (IMF) approves a loan program in order to assist poor countries that may suffer economic turmoil due to abolition of quotas. It offers about 1.45 billion of loans to poor countries which qualify.
Somo bulletin (2004) suggests that much of the attention must be paid to workers as they are the ones who bear the brunt of the removal of quotas due to factory closures or downsizing. It points out the issue of compensation as critical because workers need assistance to get the benefits such as severance pay.

The next chapter thoroughly explains the strategy used to carry out the research. Attention is paid to the kind of study, sample use, data collection methods, reliability and validity of the measures and problems encountered while collecting the data.
3.0 CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction
The research investigated the effects of the Multi-Fibre Arrangement phasing out in Lesotho and gathered data on the way forward for the garment industry. Therefore, only people who were deemed to be able to provide the required information for the purpose of understanding the options in this regard were surveyed.

Opinions were sought on whether the MFA phase-out could have been avoided and whether the retrenchments could have been avoided in the past and can still be avoided in the future. If not what options could be pursued to lessen the perceived negative impact of the MFA phase-out on the garment industry?

Research methodology is basically concerned with the way in which researchers conduct research. It focuses on what researchers are trying to do when they conduct research and how they embark on it (Saunders, Lewis and Thornhill, 2003). The study aimed to solicit opinions from different stakeholder groups regarding the effects of the phasing out of the Multi-Fibre Arrangement in Lesotho. This section therefore, discusses the methodology adopted for data collection and the instruments used.

3.2 Kind of Study
There are various research strategies namely: experiment, survey, case study, grounded theory, ethnography, action research, cross-sectional and longitudinal studies, and exploratory, descriptive and explanatory studies to be considered when conducting research (Saunders, Lewis and Thornhill, 2003).
For the purposes of the study, the research strategy that the researcher employed is a case study approach. Case study research focuses on an in-depth contextual analysis of few events and conditions (Cooper and Schindler, 2003). The researcher's intention is to divulge information and to generate knowledge and insights regarding the abolition of the quotas by examining the garment industry.

The purpose and functions of qualitative and quantitative data on questionnaires are different yet complementary (Mouton, 2005). The study will, therefore, integrate both approaches. The research will use both the quantitative design in that it will seek to group factories according to type and uncover any existing similarities in their treatment of the problem; and qualitative design in that it will describe opinions of affected stakeholders which are significant and individualistic in their own right.

a) Qualitative Approach

Qualitative approach is concerned with issues of richness of raw data because of its inductive approach which accentuates the development of insight and understanding from data collected (Struwig and Stead, 2001). According to Cooper and Schindler (2003) qualitative research approach can be successfully determined in the description of groups. Qualitative questionnaires were designed to capture the opinions in respondents' own terms. Detailed and in-depth data was provided through the description of the situation under investigation. Mouton (2005) notes that, analyses with qualitative approach may be difficult as responses are neither systematic nor standardised.

Ghauri and Gronhaug (2002) hold that conducting research is a process that should help to make change happen. It also opens up the debate about what might be going on inside an organisation, and allows people to advance theories,
hypotheses, reactions and opinions in a protracted way. In this case of Lesotho, people in different organisations became the main sources of primary data. Cooper and Schindler (2003) assert that qualitative data are based on meaning expressed through words and other symbols or metaphors; qualitative study can actually be successfully implemented in descriptive groups and organisations by studying cases that do not fit into particular theories.

b) Quantitative Approach
Quantitative research involves collecting, presenting interpreting data in a useful form (Ghauri and Gronhaug, 2002). Quantitative approach was also adopted because collected data was validated in terms of similar responses during analyses. Mouton (2005) indicates that quantitative methods use standard measures that fit different opinions and experiences into a predetermined response category. This will facilitate comparison and statistical analysis.

3.3 Sampling Design

3.3.1 The Population
The intention was to cover the entire population of textile factories in the country. But time would not allow for that, so the factories were sampled in order to work with a small number that permits handling within the time allocated. A sample was drawn from only those factories which fall under the Lesotho Textile Exporters Association because the MFA only deals with the export market.

There are a total of twenty six (26) factories operating at the time material. These factories are located in Maseru the capital City of Lesotho. In Maseru there are two separate industrial estates, one is called Maseru Industrial and is the oldest existing location of factories in Lesotho. Another Industrial estate in Maseru is located at Thetsane. Some of the factories in Maseru Industrial are owned by South African companies while few are Taiwanese.
In Thetsane Industrial, most of the factories are owned by Taiwanese. There are factories in Maputsoe, an industrial town, situated near the Lesotho/South African Border of Ficksburg in the Free State Province. It was important to include factories from this location in the sample.

Another factory that is also included in the sample is situated in the Mafeteng Industrial town. This estate is situated near the Lesotho/South African border of Van Royeen’s Gate leading into Wepener in the Orange Free State Province. The criterion which the researcher applied in selecting the participants was, therefore, essential to understand the opinions, attitudes and behavioural motivations of the stakeholders.

The entire population would have been included, but for practical economic purposes, a sample was adopted. Representatives of the stakeholder groups were also included in the sample. Apart from the management of the factories, stakeholders include government agencies, labour in the form of workers and trade unions and private sector networks.

A list of the Lesotho Textile Exporters Association is attached as Appendix D. Focus Groups were used to represent the larger populations of workers. These groups are difficult to sample in any systematic way because of their mobility and unavailability during working hours.

3.3.2 Sampling Procedure
Probability sampling is primarily concerned with random selection which implies a procedure that ensures that each population element is granted a known non-zero chance of selection (Saunders, Lewis and Thornhill, 2003). Probability sampling techniques include random probability sampling, stratified random sampling, cluster sampling, systematic sampling and multi-stage sampling.
However, qualitative researchers have a tendency to use non-probability sampling on the premise that they rarely decide on the sample size in advance and mainly because it is quick and easy to generate (Cooper and Schindler, 2003). There are various sampling strategies that can be employed in qualitative research, some of which are briefly discussed below.

a) **Purposive sampling**

In purposive sampling, interviewer selects sample members because they meet the special needs of the study based on interviewer’s judgement. It is basically, used for selecting respondents and for the purpose of gaining information from each category represented (Saunders, Lewis and Thornhill, 2003).

b) **Snowball Sampling**

With snowball sampling, researchers collect data from a limited number of population members, and ask these individuals to identify other members of the population who might be willing to participate in the study (Struwig and Stead, 2001).

In the study the researcher made use of a combination of simple random, purposive and snowball selection. Simple random sampling holds that each element in the population has a known and equal chance of selection (Saunders, Lewis and Thornhill, 2003). It was adopted as each Lesotho Textile Exporters Association member has equal opportunity for being selected, this mainly applied on selection of managers of the factories who are association representatives.
Purposive sampling was used as information was sought from representatives of various institutions. The researcher selected the research participants who were deemed resourceful and could provide fruitful input to this study especially those who worked directly with trade matters.

Snowball sampling was adopted when selecting stakeholder-members who had adequate knowledge to shed light on the effects associated with abolition of quotas. Employees recommended trade unionists who also recommended certain consultants and those recommended also recommended certain politicians.

3.3.3 Sampling Size
According to Saunders, Lewis and Thornhill (2003), sampling is a means by which researchers select elements in a population to represent the entire population. This is due to the fact that surveys never achieve the required completeness. Sampling is one of the most important subjects in quantitative methods. In most practical situations, the population becomes too large to carry out a complete survey and a sample can be examined. It is also possible to ask more questions with a sample.

The adoption of samples rather than surveying the population was deemed advantageous because it proved to be cheaper, quicker and if selection could be proper, there is a probability of getting accurate results. Therefore, a sample size of fifteen (15) people was targeted. This comprised of management of ten (10) factories, one (1) government official from the Ministry of Trade, one (1) representative of Lesotho National Development Corporation, one (1) representative of the Trade Union, one (1) economic analyst from an academic institution and one (1) politician from an opposition party.
The study focused on three (3) major response groups; namely: Management, Policy Makers and Employees.

- Members of Management of the Lesotho Textile Exporters Association are drawn from the Maseru Industrial Estates, Thetsane Industrial Estates, Maputsoe industrial Estates and Mafeteng industrial Estates. Their role is to link the Lesotho factories to the parent companies, to negotiate labour conditions, recruit staff, set operations standards and targets and generally manage the factories. The parent companies approve changes for implementation. Therefore some questions were designed specifically for these roles. Out of 26 members, a total of 10, four (4) from Maseru Industrial, another four (4) from Thetsane Industrial, one (1) from Maputsoe Industrial and one (1) from Mafeteng Industrial were picked at random.

- Members of the employee populations were represented by four (4) focus groups one (1) from of the Maseru Industrial, one (1) from Thetsane Industrial, one (1) from Maputsoe Industrial and another one (1) from Mafeteng Industrial. These are people who are directly affected by any policy changes in the factories. A questionnaire for this response group was formulated and administered.

- The third group is the policy maker group of government and labour representatives. By virtue of their responsibilities they lay down the laws governing what firms can do in the interest of the economy of the country. It is to this group that recommendations are directed for any changes that affect the workers. Questions about policy direction were, thus, formulated for them.
3.4 Data collection methods

Both qualitative research methods and quantitative methods were used to generate data for the study. Saunders, Lewis and Thornhill (2003:99) affirm that it is essential to utilise multi-methods in a single study in that 'different methods can be used for different purposes and enables triangulation to take place'. The researcher used two different types of methods such as questionnaires and focus groups.

Saunders, Lewis and Thornhill (2003) hold that organisations that evolve successfully have swift feedback mechanisms from their environment that allows them to detect and respond to change. It is further observed that organisations ask their customers what they want through a variety of researches, be it by means of regular questionnaires, focus groups, or market research.

For this study, the researcher is not part of the organisation, but she worked in this environment and was challenged by the lack of information for management decision-making. The design of self-administered questionnaires was the best method to use to gather data as subjects could not be interviewed face to face.

3.4.1 Pilot Study

Due to time constraints, the study was piloted with Thetsane Industrial Estates only. A sample of four respondents was selected; these comprised a Mosotho woman who is a factory worker, a Chinese young man who represented management, an officer from the trade ministry who represented government and a unionist who represented the workers. These were not part of the sample of the study.
The questionnaires were distributed to these people with the researcher readily available to provide guidance and clarity as required. The pilot study was conducted to confirm that the questions asked may bring about the solution to the identified problem and to test whether the questions are clear and can be understood by all respondents with ease. Questions were thoroughly scrutinised, professional advice was provided on proper structuring and phrasing of questions. With the help of these people some of the questions were removed, some added, while others were rephrased.

3.4.2 Questionnaires

A questionnaire targeting the Management of the factories that is members of the Lesotho Textile Exporters Association was designed. It contained open-ended questions which sought factual information on plans and problem-solving methods as well as their opinions on the expected impact of the MFA phase-out.

A set of questions was designed for Trade Unions to assess their role in seeking the workers interest in policy interventions. Another set of questions was directed to the Minister of Trade and Industry and apparel and textile specialist in order to assess their role in relation to the phasing out of the quota. Another set of questions went directly to the employees in order to establish their knowledge of MFA phase out and their general knowledge of what issues affect them at work as well as which ones threaten them and in what ways.

A covering letter requesting their participation in the study was designed and attached to the questionnaires. It explained the purpose of the study, the participants' rights, and the benefits for giving information, the name of a contact person and telephone number for those who might have questions for clarification.
The respondents were guaranteed anonymity and confidentiality of their responses in order to increase the possibility of acquiring reliable results. Most importantly, they were informed that they were not bound to answer all questions and might as well hold back their remarks to any question they wish to.

The underlying reason behind that explanation was to alleviate the fears of being victimised and putting their status in jeopardy as a result of participation. All participants were asked to sign a written consent form before completing their questionnaires. Before they were left to fill out the questionnaire at their own pace, they were also provided with instructions on how to properly fill it out.

Different questions were designed for management of the factories and the other set of questions were also designed for the policy maker group of government and labour representatives. All questionnaires were given to the subjects to read and respond to. They were later collected from their locations.

3.4.3 Focus Groups
Ghauri and Gronhaug (2002) define a focus group as a team of people who meet to exchange ideas, information and experiences on a certain topic. Focus groups can be in a form of discussion groups, focused interviews, group interviewing and group research. The form that the researcher used was discussion groups, two (2) from the Maseru based firms and one (1) from the other locations of Maputsoe and Mafeteng. These are people who are directly affected by any policy changes in the factories.
Characteristics of the Focus group:
Although the Focus group participants were not subjected to a demographic audit, characteristics that were readily observable were noted. All groups consisted of mainly young and middle aged women. The groups consisted of about 10 people in each location. They were predominantly Basotho. Men were few and in one location at Thetsane Industrial no men participated even though they passed by.

The researcher used focus groups for the following reasons:
- They are inexpensive and less time consuming since time pressure is a major constraint on employees,
- They facilitate a framework which assists the researcher to interact with the respondents in sharing their experiences,
- They provide the researcher with the opportunity to confirm trends revealed in other data sources.

In order to solicit sensitive information from the participants, attempts were made to build a relationship and trust with each participant as well as selecting discussion sites where participants would feel at ease, open up and divulge innermost feelings and experiences. The focus group discussions were chosen with the utmost care so that the researcher made surprise visits to women and occasionally a man or two would be present.

This was done deliberately in order to facilitate freedom of expression by the group participants. They were met at the end of a day’s shift as they moved to the taxi rank, but certainly away from their employers. Another reason is that they were not organized into a formal meeting so as not to be mistaken for a political rally or industrial action. The intention was to make them as informal as possible.
The researcher commenced the discussion by firstly introducing herself, welcoming and thanking the participants for their willingness to participate. Secondly, a brief explanation of the background, context, and purpose of the study was made. Thirdly, the researcher ensured the participants that participating in the discussion would not be of any harm to them personally.

Fourthly, the researcher asked their permission to record data on paper during the discussion. The discussion was conducted in the participants' home language that is Sesotho as some of the participants were illiterate. Lastly, the researcher expressed her thanks and appreciation to the participants for setting time off and sharing their experiences with her.

Although the discussion questions were pre-prepared and short, no recording was done during the discussions. But as soon as the researcher left the group the responses were instantly recorded while still fresh in the mind of the researcher. The researcher was also careful not to ask the same group of people questions or people who can recognize her from a previous occasion. So the coverage of groups was spread far apart and in different sections of the geographical position of the firms.

Luckily the firms themselves were not clustered together so that groups often came from different firms with no likelihood of discussing the questions to influence their opinion or to presuppose that the questions would lead to unprofessional behavior that could adversely affect the workers' jobs. These factors had to be controlled cunningly in order to ensure the reliability of the responses.
3.5 Data Analysis

Questions seeking almost similar responses were grouped together for ease of analysis especially the open-ended questions. Most of the data except for the profiles of the firms is qualitative and therefore form the descriptive report. Content analysis was employed to assist in the analysis of research data. Struwig and Stead (2001:14) have defined content analysis as “the gathering and analysis of textual content” of which phrases in the text are grouped and classified into themes in relation to the content.

Cooper and Schindler (2003:460) point out that content analysis is applied as a flexible and all-embracing tool in a qualitative and quantitative research to determine the what aspect of a message either written or spoken.

Cooper and Schindler (2003:461) add further by clarifying that content analysis follows a systematic process based on the selection of unitization scheme. The unit selected may fall under the following schemes:

- Syntactical – units are shown by words.
- Referential – units are illustrated by objects, events, persons and so forth, to which an expression refers.
- Propositional – units use several frameworks such as demonstrating the relationships between variables.
- Thematic – units are higher-level abstractions inferred from their connection to unique structure or pattern in the content.

Among the different types of content analysis, the researcher selected and applied thematic content analysis to categorize and respond to themes that appeared from the patterns in the individual of the research.
3.6 Reliability and Validity

In research design, attention must be paid to two issues with the aim of minimizing the chance of attaining wrong answers, that is, reliability and validity (Saunders, Lewis and Thornhill, 2003). Validity is primarily concerned with whether the findings are really about what they appear to be.

To ensure validation in the study, the researcher employed triangulation which implies the use of different data collection methods in the same study. Triangulation enhances the credibility of the measure and attenuates the researcher’s effect which is prejudicial in reporting and interpreting the findings (Struwig and Stead, 2001).

On the other hand, Saunders, Lewis and Thornhill (2003) define reliability as the extent to which measures are consistent and stable, which could be assessed by posing the following questions:

- Will the measures yield the same results on other occasions?
- Will similar observations be reached by other observers?
- Is there transparency in how sense was made from the raw data?

It would be very difficult to satisfy these requirements due to human factor engraved in every researcher, especially where secondary data were used. Therefore the tool to collect data has been developed by the researcher. As a result she was familiar with it and it was liable to minimal mistakes as she was delivering and collecting the questionnaire and checking the responses in order to ensure that relevant data has been collected.
3.7 Limitations of the Study

Time and cost were the major constraint in completing the study. Getting management to participate was not an easy task because it was frustrating to request respondents to spare their time to respond to the questionnaire. Most respondents were very reluctant to discuss the issues relating MFA.

Data collection was allocated three weeks. But since many of target respondents already had tight schedules in their work, their delays meant the study went for three months collecting data. Respondents had been given addresses to which they could mail the completed questionnaires, which they did not oblige. The researcher had to schedule additional physical visits to collect the completed questionnaires.

3.8 Conclusion

A case study was chosen for the research purpose. This method was chosen because the industry is very small and is centrally organized. The research, in seeking to address the above objectives, used both qualitative and quantitative research methods. Questionnaires were designed, piloted and given to the stakeholders to complete.

Focus group discussions were held with selected industrial workers in order to obtain a broader view of the extent to which the phasing out of the quotas has impacted on them. The following chapter presents the research results, analysis and discussion of the data collected in detail.
4.0 CHAPTER FOUR FINDINGS/ RESEARCH RESULTS

4.1 Introduction
This chapter outlines the results of the study on the implications of MFA phase out on the garment industry in Lesotho. It is a systematic arrangement of the responses to the major questions that the study sought to address. The study was motivated by the closure of some textile factories in Lesotho attributed to the end of worldwide textile quotas, in particular, the MFA in 2004.

The questions that the study sought to address have been to:

- examine the impact of the MFA on the economic growth of the country;
- examine the impact of the MFA on employment in Lesotho;
- determine the consequences of the MFA phase out on the garment industry and the workers; and
- Find out what actions have been undertaken to mitigate negative impacts of the MFA phase-out.

The results of this study are presented in the context of themes that emerged from the structure in the content conversation that evolved from the questionnaire and within the focus groups. The results and analysis of questionnaire from trade unions, Minister of Trade and Industry, specialists and the management and employers within the industry will firstly be presented. Thereafter, the results and analysis of focus groups with employees will be presented.

4.2 Questionnaires Results
Questionnaires were disseminated to members of the Lesotho Textile Association in four Industrial Districts of Lesotho, those being: Maseru West Industrial Estates, Thetsane Industrial Estates, Maputsoe Industrial Estates and Mafeteng Industrial Estates. Amongst all these Industries, only thirteen factories were given questionnaires.
The questionnaire was submitted to members of each of the following institutions:

- government officials from the Ministry of Trade,
- representatives of the Trade Union; and
- apparel and textile specialists.

The respondents were given a chance to express their views freely in relation to the issues pertaining to the impact of abolition of quota on the garment industry and workers. All were perceived as stakeholders in the textile industry. Other stakeholders such as SME’s that support the textile industry like the transport industry were not asked questions because of lack of time. But some of the respondents addressed issues related to other supporting industries.

The next stage is an outline of the position of the Ministry, hence, the stand point of the Government of Lesotho, trade unions, specialists and the management and employers within the industry with regard to the impact of the Multi-Fibre Agreement phase-out on economic growth, which shall be reported on the basis of each theme listed below:

4.2.1 Theme 1 - The effects of MFA phase-out on workers

Majority of the respondents were of the view that there was a direct negative impact of the MFA phase-out on the employees. They felt that the removal of quotas in the textile and clothing industry in Lesotho led to job losses for many people in the country; hence, the government is calling for diversification.

Some respondents revealed that some estimates showed that clothing imports from countries in the AGOA pact which get duty free treatment in the United States fell by 22% in volume terms. The value of imports from Lesotho came down to U.S $ 81.7 million in the second quarter of 2005 compared to U.S. $99.8 million in first quarter. However, at the helm of AGOA, Lesotho textile exports rose from U.S. $100 million in 1999 to U.S. $450million in 2004.
**Job losses**

When addressing the question whether the MFA phase-out had adversely affected the textile industry, it was observed that it had because a number of factories closed down. But it was also observed that these were obviously smaller factories which had had a tough time sustaining themselves. The number of job losses however is one single factor that the respondents felt demanded government intervention.

Some respondents explained that when the Multi-Fibre Agreement expired, thousands of Basotho people lost their jobs in a sector that employed 50 000 employees and the whole textile industry declined from a 3.1% growth in 2004 to 1.2% in 2005. Apparently 30% of the factories have closed down.

**Overnight closures**

One major concern said one respondent, is that many factories closed down overnight and in most cases owing wages and severance pay to workers and with large debts to pay. The MFA phase-out was attributed to the closure of these textile factories who claimed that they could not face the competition from China. Previously, they had been participating in a lucrative share of the United States and European Markets; however, when the arrangement ceased they were forced to close down. The factories that remained in operation did so despite the drop in orders.

**4.2.2 Theme 2 - The effects of MFA phase-out on the industry**

When responding to the question about the level of contribution of the textile industry on Lesotho economic growth, one of the respondents confirmed that the textile industry contributed significantly to economic growth of the country. It was also indicated that the industry impacted the employment landscape positively and it was one of government’s strategies to eradicate poverty among the urban poor.
Others respondents revealed that earnings from goods exported to the United States market have doubled since the Africa Growth and Opportunities Act (AGOA) and the manufacturing sector is the largest domestic employer in Lesotho. The industry has experienced an economic boom from employing 20,000 workers in 1999 to 56,000 in 2003 (Central Bank of Lesotho, 2005).

Responses from most respondents positively indicated that the demise of the MFA has had the effect of allowing the buyers to concentrate their sourcing programmes in a small number of countries as quota requirements were not only limiting the volumes that could be sent from quota bound countries but also adding costs as vendors had to bid for quotas adding between $1 and $2 to the cost of a single garment.

Other respondents reported that the demise of the MFA led to an immediate 10% (approx) drop in global prices which made it difficult for Sub Saharan Africa countries to remain competitive while Rand Monetary Area countries had particular difficulty as the Rand strengthened against the dollar. One respondent indicated ‘despite the hype the demise of MFA, in my opinion, has not been as devastating on Lesotho as one would expect. The real issues are the strength of the currency against the dollar and the constant drive towards ever shortening lead times’.

However, in Lesotho’s case, the US retailer Target withdrew from sourcing apparel whilst the production of apparel for Wal-Mart, although buying through agents and not directly, declined dramatically. Consequently, a number of factories closed in Lesotho resulting in the loss of around 13,000 jobs in January 2005 (ITGLWF Africa news, 2005).

In summary, it is believed that the Textile industry had contributed tremendously to the government’s strategy in the area of poverty alleviation among the urban poor. Although there were no exact figures on the industry’s contribution to GDP, there
was a clear knowledge of its contribution to income from foreign direct investment. Nonetheless, it is evident that the phase out caused disruptions in employment in the country with reference to thousands of jobs that were lost.

4.2.3 Theme 3 - The responsibility to address the potential negative impact on workers

When addressing the question of whether it is the responsibility of each company or the garment industry to address the social and economic impact of phasing out of quotas on workers, responses varied, but few suggested that it is the responsibility of the factory managers or owners themselves to retain their business.

They indicated that factories are blameworthy for declining supplier-buyer relationships. The following appeared as the reasons for tarnishing a supplier relationship:

- inferior quality;
- failure to deliver; and
- poor workplace conditions.

Consistent among respondents was the view that all the stakeholders, that is, the Government, industrialists, buyers, unions, international governments and the donor community are partially responsible but in varying degrees. With regard to what the responsibility of each stakeholder entails, the following views emerged:

- Government needs to ensure that it has created a positive and conducive business environment in which goods can be produced and delivered in the most efficient manner from a bureaucracy point of view and that adequate infrastructure and utilities are in place at competitive prices. It also needs to design its investment and tax incentives in such a way as to retain and foster industry.
• Industrialists – who have become used to operating in a low wage environment - need to invest in training and methodologies that increase factory efficiency and productivity. They also need to develop key strategies that will deliver a competitive edge whether it is with regard to shortening response times, or working on industrial relations and worker benefits to enable them to market their produce as being ethically produced.

• Buyers can and do become directly involved in trying to assist the industry to become globally competitive through encouraging and funding training and donating some of their Corporate Social Responsibility funding into worker benefits such as programmes to address the HIV and AIDS pandemic – making the produce from the country ethically sound.

• Unions need to engage with industrialists, buyers and government to build the profile of the industry by concentrating their negotiations on standards of decent work rather than wage increases while the industry moves through the period of transition.

• International Governments can create favorable and preferential trade agreements that give advantage to third world countries. The African Growth and Opportunities Act (AGOA) is such an example. The Cotonou's rules of origin for garments produced in Africa and sold into the EU need to be changed to give a limited preferential advantage.

• The donor community can contribute by providing much needed technical expertise to the target country in terms of trade positions, briefing papers, encouraging training and facilitating processes.
It is evident from these results that factory managers recognise their responsibility towards the welfare of their employees such as entitlement to good working conditions, paid leave, paid sick leave, paid maternity leave, terminal benefits and severance pay. In a nutshell, it is clear that those employees that remained in factories that did not close down are now involved in new directions for improvement. For instance, the retraining program suggests that they are now able to get involved in design and job rotation which enables them to sew a complete garment.

4.2.4 Theme 4 - Programs and opportunities for mitigating the potential negative impacts

One respondent showed interest in participating in concerted multi-stakeholder project efforts to manage and mitigate social and economic impacts, in spite of the fact that governments and industry hold the primary responsibility. However, other respondents called out for active participation in such efforts by all stakeholders such as local and international governments, factories, industry associations, NGO’s, communities.

Even though most respondents were willing to participate in collaborative multi-stakeholder projects, few respondents conveyed their eagerness for clarity about requirements of their participation so that they can assess their capacity based on required commitment and time.

On the one hand, one respondent mentioned that a possible way in which to take on the responsibility for addressing directly the needs of workers who lost their job would be through engaging in collaborative programs. Such shared efforts would be aimed to facilitate the provision of retraining or preferential hiring or skill development projects.
In summary, while the industry for the most part does not recognize managing and mitigating negative impacts as its prime responsibility, it conveyed its willingness to contribute to such efforts. It is also believed that intervention of local and international governments would be required to address these issues through public policy which creates an avenue for sustainable solutions.

An example of shared mitigation efforts is the establishment of the LNDC/ComMark Apparel project initiated by the ComMark Trust. This is a 15 million Maloti programme that co-finances training, provides technical assistance, assists with investment promotion, facilitates buyers, assists in developing policy and has designed a long term intervention to address prevention and treatment of the HIV and AIDS pandemic in the industry’s workforce.

ComMark and other stakeholders managed to turn the decline of the industry back into one of impressive growth. All existing suitable factory shells in the country are now occupied, employment has started to grow significantly, many new investors have started production facilities in the last six months and the Government has committed itself to start on a building programme to meet the needs of new investors.

4.2.5 Theme 5 - Engagement in discussions with all stakeholders to seek to address the issues surrounding the phase-out

One of the respondents indicated that Lesotho has been involved in negotiations towards a beneficial global trading system for a long time. One of these critical meetings was the 2001 World Trade Organization (WTO) negotiations in Doha. The strategic option for trading partners was to protect the developing countries from high tariff levels over their exports to the developed Western countries’ markets. Despite the talks, tariffs amount to 15% in Sub-Saharan Africa while they amount to 5% of the value of trade in developed countries.
A problem identified was how to open the big marketplaces in the industrialized West. Looking toward the Hong-Kong WTO meeting in December 2005, the Minister of Trade is quoted to have urged Lesotho to diversify across products and markets and raise export revenue through greater value addition.

Minister Malie quoted the South African Customs Union (SACU), the Southern African Development Community (SADC) trade protocol and the Common Monetary Area (CMA) agreements as good examples that African countries cared for each other. The African Union’s (AU) New Partnership for Africa’s Development (NEPAD) also steers economic progress at continental level.

Several respondents mentioned that they consistently hold discussions on the matter, in most cases, factory managers, trade representatives and unions were involved in these discussions around the phasing out of quotas. Some mentioned that they have had external discussions with suppliers’ agents, shareholders as well as NGO’s. Issues that were discussed include:

- Diversification;
- remaining competitive;
- contingency plans;
- Exit and/or displacement;
- workplace labor;
- health and safety conditions; and
- compliance with local laws and codes of conduct.

A number of respondents pointed out that they work constantly with the Lesotho Government, the Lesotho National Development Corporation and other stakeholders. One respondent stated that they have a permanent office in Lesotho with two members of staff who are apparel sector specialists.
Most of the respondents reported that they are actively engaged with the Multi-Fiber Arrangement Forum (MFAF) which is a multi stakeholder network operating at an international level. Lesotho is one of the countries that have been engaged by the Forum – Bangladesh is the other one.

The respondents were quick to indicate that The ComMark Trust supports the MFAF financially and recently hosted a conference in Lesotho with the aim of strategizing the way forward for the industry. The conference was opened by the Prime Minister with 14 cabinet members in attendance. The conference put more emphasis on the need for Lesotho manufacturers to increase their productivity and to maintain their global competitiveness.

Furthermore, one respondent affirmed that although the employees are not involved in any policy change discussions they are however informed from the association’s point of view about the changes that may affect them.

4.3 Focus Groups Results
The Focus Groups results that will next be presented and discussed concentrate more on the impact of the Multi-Fibre Phase-out on Employees. Focus groups discussions were conducted with employees at Thetsane Industrial Estates, Maseru Industrial Estates, Maputsoe Industrial Estates and Mafeteng Industrial Estates.

4.3.1 Summary of the responses:
The factories needed to improve in the area of wages and working conditions. Some of the workers indicated that they do not have strong educational backgrounds for better jobs. Some of them have had an education up to Junior Secondary level while a few had a Senior Secondary level education. Some women felt that their jobs at the factory led them to nowhere. When they retire which they felt would be soon enough because of poor working conditions and the prevalence of rheumatism disease, they
still felt that they could not do anything else. The severance pay was not enough to start new businesses while the skills to do so were also lacking. Some of the women indicated that they were employed as Machinists and line feeders. Others were engaged in cutting, sewing sleeves or sewing a certain part of a garment. Most workers had never sown a complete garment or been involved in its design.

4.4 Conclusion
In conclusion, there was a general feeling that there have been job losses in the garment industry as factories closed down in January 2005 due to the end of MFA. Responses indicated that almost all the stakeholders were aware of the effects of the abolition of quotas on both the workers and industry. As a result, they have been engaged in discussions amongst themselves in order to establish, first, who had to take full responsibility to address the potential negative impacts. It identified that all the stakeholders had to share the responsibility.

In addition, what was included in their discussions was to come up with programs and/or create opportunities that could help in managing and mitigating the potential negative impacts on workers. Suggestions were put forward such as the establishment of the LNDC/ComMark Apparel project initiated by the ComMark Trust which is sponsoring training in order to raise productivity in factories.
5.0 CHAPTER FIVE RECOMMENDATIONS

5.1 Introduction

The end of quotas implies that the Lesotho garment industry would face fierce competition from other low cost producers. It became evident from the research results that very little progress has been made to manage and handle the adverse impacts of the phase out involving of all the stakeholders. It can also be gleaned from the literature review and specifically drawing from the case of Bangladesh that certain strategies need to be crafted and implemented for Lesotho to improve its competitiveness and retain and grow the garment industry.

Taking a cue from the Bangladesh case, the Government of Lesotho through the Ministry of Trade and Industry working together with the Ministry of Labour and Employment should implement an initiative to retrain and rehabilitate retrenched workers.

The Government should expand the technical and vocational education to cater for these retrenched workers. In the same vain, efforts should be made to upgrade skills in order to improve productivity, re-skill the retrenched workers so that they are able to engage in income generating projects. This should be complemented by offering cheap credit facilities to redundant workers with flexible repayment terms.

In addition, the Government should institute programs targeting managers in the garment sector in productivity management, quality management, compliance norms, merchandising, marketing and inventory management to enhance the sector’s competitiveness in the global market.
It is also imperative that Government creates an investment environment that is conducive to investors which is free of administrative hassles in order to further reduce the cost of doing business.

Furthermore, for Lesotho to survive in a quota-free world, the following strategies will be put forward in the form of recommendations.

5.2 Strategies

5.2.1 Training and Development
Employee training and development plays a pivotal role in meeting the challenges of changing marketplace. It seems that employees' skills require more rigorous evaluation and development. Employers need to make sure that their employees have the skills they need to perform their jobs. Therefore, the strategy to retrain employees for enhanced productivity levels should be combined with job-rotation in order to create a career path that does not spill over into management. Investment in human capital can increase productivity and lead to reduced costs and prices.

5.2.2 Developing new markets
The garment industry must now aim its products at new markets. It must avoid mass market and target niche markets with value-added products. In this case, it must recoil from US market as competition is still intense and explore other global new markets. It would also be advantageous to exploit other preferential access through various trade agreements that are still available such as Canadian markets and SACU markets.

5.2.3 Backward vertical integration
It is recommended that the garment industry must try to gain control of its inputs or resources by becoming its own supplier of denim and knit fabric. Government may assist the garment industry by securing investments that would support its knitted garment manufacturing industry. This means knit and denim fabric manufacturing
and finishing facilities. Integrating vertically is associated with better control of costs, more efficient use of inputs and enhanced production times.

5.2.4 Diversification
Lesotho should diversify into different industry either one that’s related in some way to the garment industry’s operations or move into a completely different industry. Moving into fabric manufacturing industry will be related diversification while moving into accessories industry will be unrelated diversification. It would be wise for investment promotion efforts to start targeting manufacturers of sewing threads, zips, buttons and labels in other sectors. This will help spread industrial risk and reduce complete dependency on a single sub sector.

5.2.5 Benchmarking
Last but not least, the garment industry must have a clear understanding of its ability to compete successfully in a quota-free world. In order to understand the competition, companies need to develop a strategy to compare performance with other competitors in other countries. These companies need to consider benchmarking when setting standards against which to measure their performance globally.
6.0 CHAPTER SIX CONCLUSION

All in all, by paying attention to the above mentioned strategies and implementing them, all stakeholders in the garment industry will, indeed, ensure the lessening of the adverse effects of the phase-out during the transition period and at the same time ensure the attainment of international competitiveness.

The study on the impact of Multi-Fibre Agreement being phased out sought to establish whether the impacts were negative or positive. The study concludes that there is evidence to suggest that the impact was very negative on the industry in particular and the economy of Lesotho in general. Firstly, it negatively affected employment in that a significant number of people lost their jobs.

Secondly, there is evidence to suggest that the quotas had allowed the industry to grow - as evidenced by volumes of exports in the U.S market - which immediately dropped due to the quotas being phased out. Although no statistical correlation was established between the drop in volumes and the quota phase out, the opinions of those in the industry are sufficient to determine this link. From the focus group discussions, it became clear that employees depend on the factories for employment. A large number of urban youth have no sufficient education to support jobs in other sectors. Thus, the general feeling, however, was still that there is virtually no readily available employment for general education graduates.

Thirdly, the ripple effects of the phase out will resonate in the industry for a long time to come. It is noteworthy that while the government supports the garment industry fully and endeavours to set up an enabling environment that is attuned to the changing economy by establishing strong partnerships with all stakeholders in order to manage and mitigate the adverse effects of the abolition of quotas to which the stakeholders have responded positively, there is evidence from the employers indicating that the
supportive sectors on which the textile industry depended for sustainability needed to
grow and become sustainable themselves, for example, transport and utility supply of
water and electricity. Employers also recognized that they need to build up their
supply response to market requirements and fulfil labour standards and adhere to
buyers' code of conducts in order to retain international buyers and stay competitive.
These are the challenges still overshadowing the industry.
BIBLIOGRAPHY

5. Bas FN (2004) The Multi-fiber Arrangement (MFA) and free trade’s impact on the garment industry Sweatshop Watch


15. Dr Rahman Mustafizur *Bangladesh After MFA Phases Out* Regional cooperation in South Asia Apr-Jun 2005 South Asian Journal

16. Dr Thahane Minister of Finance 2006 *Factories Fill up* Public Eye 17 February 2006


31. MFA Forum *Raising Competitiveness and Labour Standards within the Lesotho Garments Industry in the Post-MFA Era* Available on:


34. Morrissey James A *ITC: Global Trade Shifts will continue Textile World* December 1997 Vol.147 Issue 12 Pg 76


38. Salm Andrew, William J. Grant, Thuso J. Green, John R. Haycock, Dr John Raimondo 2002 *Lesotho Garment Industry Subsector Study for The Government of Lesotho* DfID


41. SOMO April 2004 *The phase-out of the Multi-fiber Arrangement* SOMO Bulletin on Issues in Garments & Textiles No. 5
42. Struwig F W & Stead G B 2001 *Planning, designing and reporting research*, Cape Town: Pearson Education
Dear Sir or Madam:

RESEARCH ON MULTI-FIBRE ARRANGEMENT PHASE OUT IN LESOTHO

I am a student at University of Kwazulu-Natal and am conducting research in part completion of Masters of Business Administration.

I humbly request your assistance in participating in this study. Participation will consist of answering the attached questions which I believe will yield relevant information on the topic: Implications of Multi-fibre phase-out: The case of Lesotho garment industry.

The administration will take about twenty minutes. Participation in this study is voluntary. Your decision whether or not to participate will not affect your work. All materials you complete will remain confidential. Attached herein is a copy of a set of questionnaire.

I hope that you will participate in this study. Should you have any questions or desire further information please contact Makhala at +27761396134 or 22430138. I thank you in advance for your kindness, cooperation and support in this regard.

Sincerely,

Makhala Nku (Ms)
ANNEXURE B
Questionnaire

IMPLICATIONS OF MULTI-FIBRE ARRANGEMENT (MFA) PHASE OUT: THE CASE OF LESOTHO GARMENT INDUSTRY.

1. How do you anticipate this post MFA (phase-out) strategy affecting your workers? Will it decrease, remain the same or increase?

2. Do you feel your company or garment industry generally has responsibility to address the social and economic impact of phasing out of quotas on workers, factories and communities? Please explain in detail.

3. Do you foresee that the elimination of the quota will affect your relationship with workers/buyers?

4. If yes does your company have a plan to address the social & economic impacts? (please describe)

5. If no, who do you think should be responsible for the potential negative impact on workers?

6. Has your company engaged in discussions with other companies, NGOs & governments to seek to address the social issues surrounding phase out if any?

7. If yes please describe efforts to date & results.

8. If no would you be interested in doing so?

9. Has the company made any provisions, in collaboration with other companies, NGOs & governments or independently established funds to provide compensation, re-training or alternative employment as a result of job losses?

10. Are you aware of any programs or opportunities for managing & mitigating the potential negative impacts?

11. Please provide us with any additional information you believe would be helpful to understanding your company’s approach towards this issue.

12. Do you envision a price impact to your product due to quota phase out?

13. What training and education has taken place with workers to raise awareness of potential implications of MFA phase out?
14. Are you yourselves as a company affected in any way by the phase out of quotas?
15. Do you believe your profit margin will remain the same? How has the profit margin been affected if at all?
16. If you had any choice about the matter what would you rather do?
17. Do you feel that you could still expand your business in Lesotho despite the MFA Phase out? Was it an incentive for your firm or not? In what way?
18. Have you had any staff turnover in the past year as a result of the MFA?
19. What if anything did you do to inform your staff about the MFA phase out?
20. Is there any relationship between you and the labour unions?

I hope you find answering the questions enjoyable and thank you for taking the time to help me. If you have any queries or desire further information about this study, please call me on +27761396134 or 22430138. Thank you for your help.

Makhala Nku
ANNEXURE C
Sample Responses To The Questionnaire

1. How do you anticipate this post MFA (phase-out) strategy affecting your workers? Will it decrease, remain the same or increase?
Response #1 “It will remain the same”
Response #2 “N/A”

2. Do you feel your company or garment industry generally has responsibility to address the social and economic impact of phasing out of quotas on workers, factories and communities? Please explain in detail.
Response #1 “The Company has a certain responsibility to address the social and economic impact the phasing out of the MFA will bring”
Response #2 ‘Yes, the Company has full responsibility of addressing the social and economic effect of the removal of quotas on workers’

3. Do you foresee that the elimination of the quota will affect your relationship with workers/buyers?
Response #1 “It will remain the same”
Response #2 ‘The elimination of quotas will have a negative effect on the relationship between the company and the buyers in such that there is going to be a reduction in orders’.

4. If yes does your company have a plan to address the social & economic impacts? (please describe)
Response #1 “We will concentrate on the local market”
Response #2 ‘still debating on it’

5. If no, who do you think should be responsible for the potential negative impact on workers?
Response #1 “N/A”
Response #2 ‘N/A’

6. Has your company engaged in discussions with other companies, NGOs & governments to seek to address the social issues surrounding phase out if any?

Response #1 “Yes, with had discussions with the association of Lesotho Employers and Lesotho Industrial Employers association”

Response #2 ‘Yes, we have had discussions with Lesotho Industrial Employers association and trade unions’

7. If yes please describe efforts to date & results.

Response #1 “Even negotiations with the government have until now not given any positive results”

Response #2 ‘Up to date discussions with the government are still going on’

8. If no would you be interested in doing so?

Response #1 “N/A”

Response #2 ‘N/A’

9. Has the company made any provisions, in collaboration with other companies, NGOs & governments or independently established funds to provide compensation, re-training or alternative employment as a result of job losses?

Response #1 “No”

Response #2 ‘Little has been done to provide compensation’

10. Are you aware of any programs or opportunities for managing & mitigating the potential negative impacts?

Response #1 “No”

Response #2 ‘Yes’

11. Please provide us with any additional information you believe would be helpful to understanding your company’s approach towards this issue.
Response #1 “As mentioned above we are now concentrating on local market”
Response #2 ‘N/A’

12. Do you envision a price impact to your product due to quota phase out?
Response #1 “Yes”
Response #2 ‘Yes’

13. What training and education has taken place with workers to raise awareness of potential implications of MFA phase out?
Response #1 “None”
Response #2 ‘trade unions are educating the workers about the effects of MFA phase out’

14. Are you yourselves as a company affected in any way by the phase out of quotas?
Response #1 “Yes”
Response #2 ‘Yes’

15. Do you believe your profit margin will remain the same? How has the profit margin been affected if at all?
Response #1 “Profits are less even with increased turnover”
Response #2 ‘No, it will not remain the same, our margins have declined’

16. If you had any choice about the matter what would you rather do?
Response #1 “Not manufacturing clothing but to import from the Far East”
Response #2 ‘Collaborate with other local companies’

17. Do you feel that you could still expand your business in Lesotho despite the MFA Phase out? Was it an incentive for your firm or not? In what way?
Response #1 “MFA was a great incentive for our export business even the strong rand”
Response #2 ‘If we join hands, we can expand our business, however, MFA was an incentive’

18. Have you had any staff turnover in the past year as a result of the MFA?
Response #1 “About 2.5%”
Response #2 N/A

19. What if anything did you do to inform your staff about the MFA phase out?
Response #1 “Did not inform the staff”
Response #2 ‘Nothing, they have no idea of MFA phase out’

20. Is there any relationship between you and the labour unions?
Response #1 “Yes, we have two trade unions in our company”
Response #2 “Yes”
ANNEXURE D
List of participating companies and organizations

P&T Garments (PTY) LTD
Shinning Century Limited
Super Knitting
Precious Garments (PTY) LTD
TZICC Clothing Manufacturers
CGM Group PTY LTD
ECLAT
TAI-YUAN Garments PTY LTD
NIEN HSING Group
Ever unison Garments Lesotho PTY LTD
Export Unlimited
The ComMark Trust
LECAWU
Minister of Trade and Industry
## ANNEXURE E

### List of Lesotho Textiles Employers’ Association

**LESOTHO TEXTILE EXPORTERS ASSOCIATION**

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>P &amp; T GARMENTS (PTY) LTD</td>
</tr>
<tr>
<td>2</td>
<td>MASERU E-TEXTILES (PTY) LTD</td>
</tr>
<tr>
<td>3</td>
<td>SHINNING CENTURY LIMITED</td>
</tr>
<tr>
<td>4</td>
<td>FIVE EIGHT GARMENTS (PTY) LTD</td>
</tr>
<tr>
<td>5</td>
<td>SUPER KNITTING (PTY) LTD</td>
</tr>
<tr>
<td>6</td>
<td>CHAINEX TEXTILES (PTY) LTD</td>
</tr>
<tr>
<td>7</td>
<td>PRECIOUS GARMENTS (PTY) LTD</td>
</tr>
<tr>
<td>8</td>
<td>HIPPO KNITTING (PTY LTD)</td>
</tr>
<tr>
<td>9</td>
<td>TZICC CLOTHING MANUFACTURERS (PTY) LTD</td>
</tr>
<tr>
<td>10</td>
<td>WONDER MANUFACTURERS (PTY) LTD</td>
</tr>
<tr>
<td>11</td>
<td>RAYTEX GARMENTS (PTY) LTD</td>
</tr>
<tr>
<td>12</td>
<td>CGM GROUP (PTY) LTD</td>
</tr>
<tr>
<td>13</td>
<td>J &amp; S FASHOINS (PTY) LTD</td>
</tr>
<tr>
<td>14</td>
<td>SUN TEXTILES (PTY) LTD</td>
</tr>
<tr>
<td>15</td>
<td>J &amp; S FASHOINS (PTY) LTD</td>
</tr>
<tr>
<td>16</td>
<td>LESOTHO FANCY KNITTING</td>
</tr>
<tr>
<td>17</td>
<td>FORMOSA TEXTILE CO., (PTY) LTD</td>
</tr>
<tr>
<td>18</td>
<td>TAI-YUAN GARMENTS (PTY) LTD</td>
</tr>
<tr>
<td>19</td>
<td>SHIANG BEING (PTY) LTD</td>
</tr>
<tr>
<td>20</td>
<td>NIEN HSING GROUP (PTY) LTD</td>
</tr>
<tr>
<td>21</td>
<td>SAN TI KON TEXTILES (PTY) LTD</td>
</tr>
<tr>
<td>24</td>
<td>EVER UNISON GARMENTS LESOTHO (PTY) LTD</td>
</tr>
<tr>
<td>26</td>
<td>KING ANG GENERAL TRADING &amp; TEXTILES (PTY) LTD</td>
</tr>
</tbody>
</table>