UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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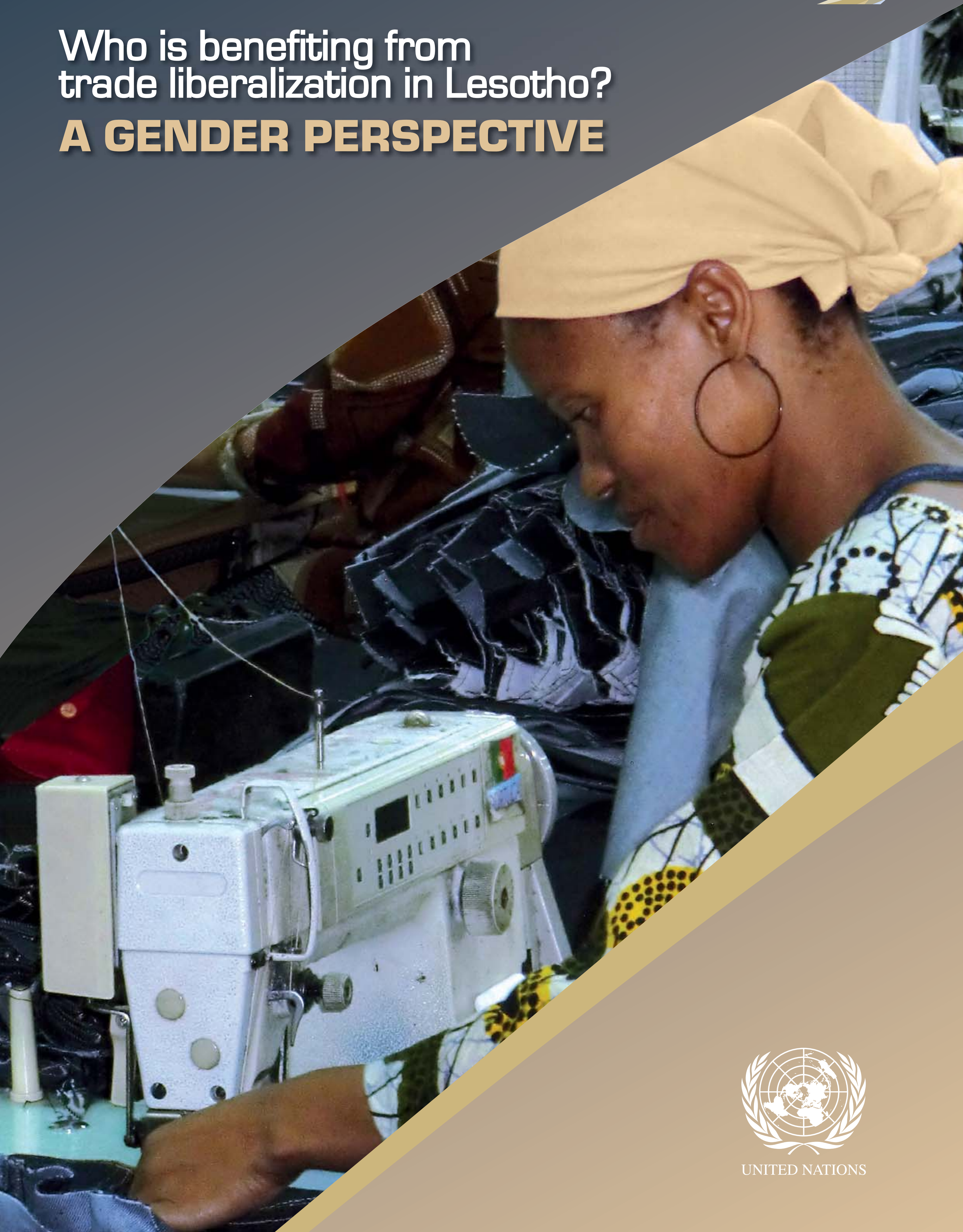
Who is benefiting from trade liberalization in Lesotho?

A GENDER PERSPECTIVE



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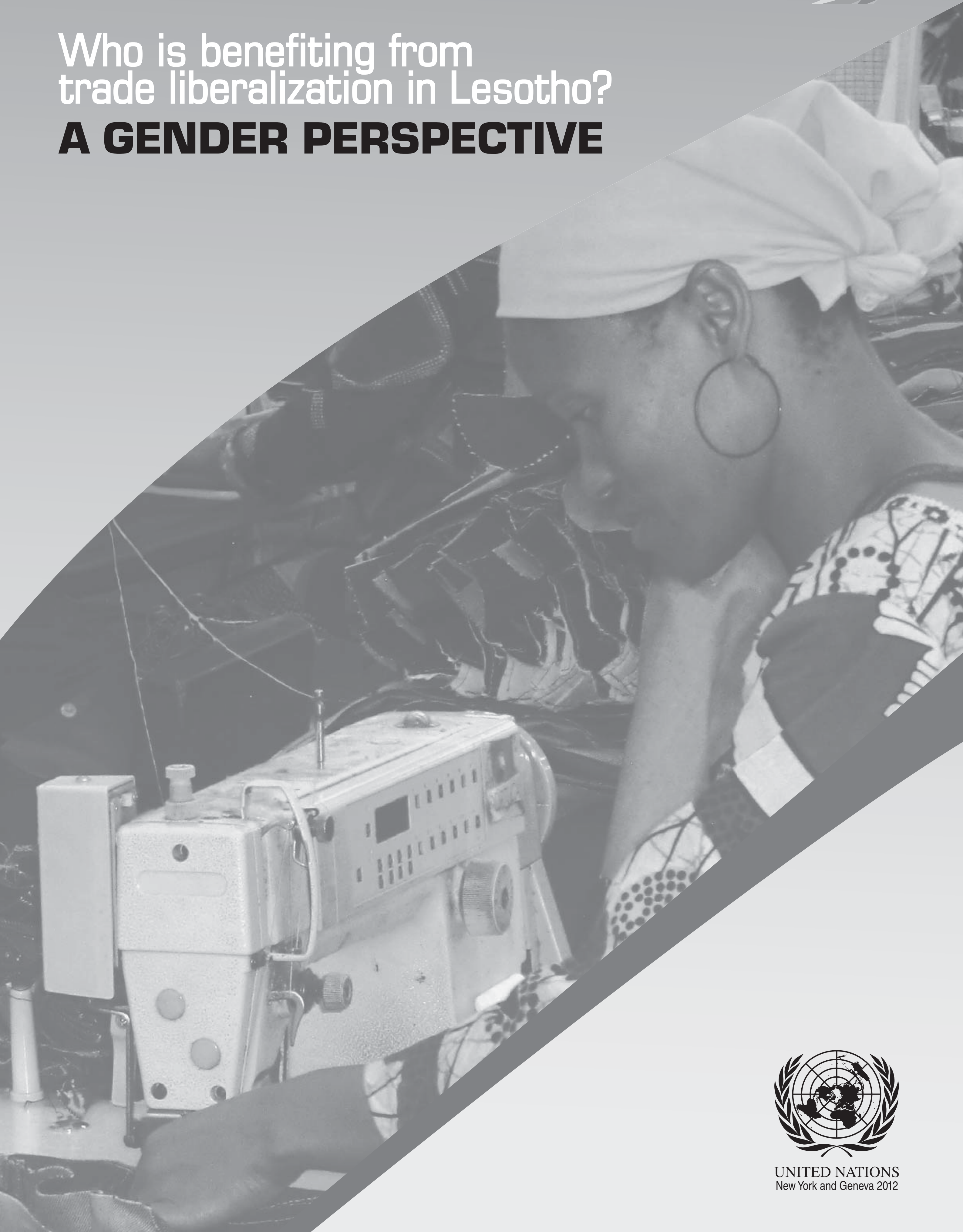

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This study is part of UNCTAD's activities on trade, gender and development carried out by the Organization in accordance with its mandate. The Doha Mandate, resulting from the Thirteenth Ministerial Meeting of the United Nations Conference on Trade and Development (UNCTAD XIII) held in Doha, Qatar on 21–26 April 2012, provides UNCTAD with a specific mandate on gender-related issues. Paragraph 56 calls on UNCTAD to "Continue its work in the area of agriculture in the context of commodities to help developing countries achieve more sustainable and strengthened agricultural production, food security and export capacity. This work should take into account the needs of small-scale farmers, and empowerment of women and youths" (subparagraph (i)). Moreover, "…UNCTAD should…Reinforce its work on the links between gender equality, women's empowerment, and trade and development, without prejudice to other programmes" (subparagraph (n)). The Doha Mandate underlines the key role that gender equality and women's empowerment play in harnessing the potential for inclusive growth and development" (paragraph 51); and stresses that they are "among the goals which are essential to all countries to attain" (paragraph 8).

UNCTAD aims to contribute to the analysis of the linkages between trade policy and gender equality, and to the related international debate, by looking at specific country experiences. This study is one in a series of case studies that are being conducted by UNCTAD in six developing and least developed countries, namely Bhutan, Cape Verde, Lesotho, Angola, Uruguay and Rwanda.

This study was prepared by Irene Musselli (lead author) and Simonetta Zarrilli from UNCTAD's Gender and Development Unit. Inputs were provided by Sylvia Booth, Diego Camacho, Mona Froystad, Mariangela Linoci and Marta Wojtczuk. Insightful comments and suggestions were provided by Luis Abugattas, Donna Bawden, Murray Gibbs, Robert Kirk, Nomasomi Mpofu, Cornelia Staritz, and Craig VanGrasstek. They are gratefully acknowledged. The overall work was coordinated by Simonetta Zarrilli.

The information in this report has been gathered from various sources, including interviews with key informants in the country. To this purpose, a "fact-finding" mission was carried out in Maseru, Lesotho, between 29 November 2011 and 2 December 2011, by a team of two UNCTAD staff members. The United Nations country Office facilitated the in-country travel and arranged the interview schedule. Interviews were conducted with:

- Governmental officials (from the Ministry of Trade and Industries, Co-operatives, and Marketing; the Ministry of Gender and Youth, Sport and Recreation; the Ministry of Labour and Employment; and the Bureau of Statistics);
- Trade unions and business representatives (from the Lesotho Wholesaler Shops and Allies Workers Union; the Lesotho Clothing and Allied Workers' Union (LECAWU); the Lesotho Chamber of Commerce and Industry (LCCI); and the Lesotho Textile Exporters Association (LTEA));
- Non-governmental organizations (the Lesotho Federation of Women Lawyers; Apparel Lesotho Alliance to Fight AIDS (ALAFA), the Association of Women in Small Business; and Khutson Sekamaneng Women in Action against Poverty).

The interviews were conceived as a qualitative enquiry into current market realities that have a bearing on women, particularly in the textile and apparel sector. They also provided the opportunity to collect the most up-to-date information on a number of employment indicators. Thanks go to the interviewees, who generously shared information and insights.

The study was financed by the Government of Norway under the project "Enhancing capacities of Lesotho to mainstream gender into trade policy". Norway's support for this specific activity and for UNCTAD's work programme on Gender and Development is gratefully acknowledged.

EXECUTIVE SUMMARY

Though important gender gaps persist in a number of critical areas, the experience of Lesotho highlights that the political resolve to promote gender equality is not, and should not be, a monopoly of high-income countries. Even those countries qualified as least developed countries (LDCs) can ambitiously adopt and implement strategies and policies aimed at reducing gender-based disparities.

The Lesotho case study highlights the multifaceted relationship between trade policy on the one hand, structural changes and productive transformation on the other, and their repercussions on patterns of employment for men and women. In particular, the rise – and subsequent relative decline – of Lesotho as a major apparel exporter to the United States illustrates clearly the strong correlation between trade policy, structural change in the economy, and shifting gender patterns.

I. GENDER ASSESSMENT

Lesotho has made significant progress on closing the gender gap. Remarkably, the country ranks 9th out of 135 countries on the World Economic Forum (WEF)'s Global Gender Gap Index (GGI), 2011, well ahead of countries like the United Kingdom, the United States or France. Lesotho has closed the gender gap in literacy and education, and female educational gains are filtering into the jobs market. Most notably, women now make up the majority of the high-skilled workforce. Women also hold the majority of positions at the local government level. These developments should be largely credited to the Government's pro-women policies and strategies. They also relate to Lesotho's migration history, as a large share of the Basotho male population historically migrated to work in South Africa's mines, forcing women to take more active roles in society at home. Notwithstanding these achievements, major gender gaps persist in a number of critical areas. Structural biases against women are evident in access to land and other productive resources. Health statistics also point to structural gender biases. The spread of HIV and AIDS has had a disproportionate impact on women, largely due to social and cultural factors, such as gender-based violence.

This duality in gender-related "outcomes" reflects a certain dualism in the country's policies and social institutions ("input" or "means" variables). Most notably, while "modern" and progressive piecemeal legislative action has provided equal rights for men and women in Lesotho; traditional rules and customs limit women's ability to exercise these rights. Sociocultural norms have not kept pace with legal advances and are still entrenched and far-reaching, for a number of reasons. First, there are some structural constraints built into Lesotho's legal framework – a dual legal system, within which "civil" law (essentially based on Roman Dutch law) and customary law coexist without encroaching upon each other. Second, a number of logistical and financial constraints hinder effective access to "civil" justice. In addition, lack of awareness of legal rules/venues, and sociocultural barriers (such as fear of reprisal or social ostracism) represent significant obstacles to women's access to justice in Lesotho. Particularly in rural areas, the evolution of social institutions (and particularly the role of women in society) will largely depend on the transformations brought about by legislative action and judicial pronouncements in areas traditionally reserved for customary law (marriage relationships, inheritance practices, etc.).

II. TRADE-LED STRUCTURAL CHANGES AND TRADE POLICY CHALLENGES

There have been major changes in Lesotho's structure of production and trade over the past thirty years. Results indicate that from the early 1980s to 2010, the manufacturing industry significantly expanded its share of production, from about 6 per cent of value added in 1982 to approximately 18 per cent in 2010. Manufacturing was boosted by strong growth in the apparel sector. During the same period, structural change in Lesotho's trade patterns was reflected by a shift in the composition of exports towards apparel products. Overall, trade expansion over the last thirty years has brought about an increase in labour-intensive exports, most notably clothing – a development accompanied by a significant increase in female wage employment in the formal sector.

These structural changes – most notably the fast expansion of supply and trade capacity in the apparel sector – largely reflect the outcome of trade policy. Lesotho provides an example of a direct correlation between trade policy on the one hand, and structural change and productive transformation on the other. Three trade policy instruments have critically shaped Lesotho's competitive edge in apparel exports: (i) quotas on exports of clothing from Asian producers to the United States and the European market under the Multifibre Arrangement (MFA); (ii) unilateral, non-reciprocal duty-free access to the United States for Lesotho's apparel products under the African Growth and Opportunity Act (AGOA) initiative; and (iii) a relaxation of the rules of origin under AGOA to permit third country fabrics in the production of Lesotho's apparel exports to the United States.

Lesotho's garment sector had expanded under the MFA, when Asian investors moved to Lesotho to bypass the MFA quota restrictions constraining textile and apparel exports from Asian countries. The MFA had provided for the application of selective quantitative restrictions when surges in imports of particular products caused, or threatened to cause, serious damage to the industry of the importing country. The main targets of protectionist measures under the quota system were low-cost Asian suppliers, including Pakistan and India.

AGOA again spurred an inflow of FDI from Asia, mainly mainland China and Taiwan Province of China, to take advantage of quota-free market access to the US. The AGOA third country fabric clause allows beneficiary LDC countries, including Lesotho, to export apparel articles to the United States under AGOA preferences, regardless of the country of origin of the fabric or yarn.

Lesotho's comparative advantage was thus, to a significant extent, artificially crafted through trade policy. This makes the country particularly vulnerable to "preference erosion" arising from the AGOA scheduled phase-out and from Most Favoured Nation (MFN) tariff cuts at the WTO. More precisely, Lesotho faces the combined implications of what we may refer to as trade preference "expiration", preference "erosion", and "preference dilution".

Preference "expiration" refers to the scheduled phase-out of AGOA and the third country fabric clause. AGOA provides duty-free and quota-free treatment for eligible apparel articles made in qualifying sub-Saharan African countries through September 2015. A productivity disadvantage vis-à-vis other (mainly Asian) exporters makes Lesotho's clothing industry heavily reliant on AGOA trade preferences. Another major related challenge facing Lesotho's garment industry is the planned expiration (30 September 2012) of the AGOA third country fabric clause. As mentioned, the clause allows lesser developed beneficiary countries (LDBCs) to export apparel articles to the United States under AGOA preferences regardless of the country of origin of the fabric or yarn. The clause on third country fabric is crucial for the viability of Lesotho's clothing exports, as Lesotho apparel manufacturers largely source their fabric inputs from non-AGOA eligible countries, notably Taiwan Province of China.

The risk of preference "erosion" arises from MFN trade liberalization in manufactured products. Multilateral trade liberalization negotiations result in market access gains for all countries, which erode the preference margins enjoyed by countries that receive unilateral preferences. In textiles and apparel, MFN tariffs are still considerable. The main unilateral preferences programmes, such as the Generalized System of Preferences (GSP), either exclude textile and apparel from their coverage or impose rather strict rules of origin requirements. Lesotho would then be particularly vulnerable to MFN trade liberalization in this sector. It seems, however, that the country is unlikely to face the challenges of further multilateral liberalization in the apparel sector for the time being, as divergences about the depth and scope of industrial tariff cuts have effectively blocked further MFN liberalization. In the past, the issue of preference "erosion" in apparel came up importantly for Lesotho (and other AGOA suppliers) in 2004/2005 with the complete phase-out of the MFA. It essentially concerned the removal of quotas, rather than tariff liberalization. The MFA had provided for the application of selective quantitative restrictions when surges in imports of particular products caused, or threatened to cause, serious damage to the industry of the importing country. The expiration of the final MFA quotas in 2005 resulted in a rapid acceleration of US imports from the formerly quota-contained Asian suppliers, such as China and Vietnam.

Preference "dilution" occurs when preferential treatment is extended to other countries. AGOA countries that already enjoy duty-free, quota-free treatment see the extension of similar treatment to the other LDCs as a threat to their own interests. As regards apparel products, preferential access to the US market under AGOA has already been diluted/is being diluted by the extension of duty-free, quota-free access to apparel imports from other major apparel suppliers to the United States, including Nicaragua (under the U.S. - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR)); and, if the Trans-Pacific Partnership (TPP) agreement is implemented, Vietnam. A major perceived threat in this context is also the possible extension of the AGOA to the Asian LDCs that do not currently enjoy preferential access to the US market, including Cambodia and Bangladesh.

These trade policy-issues have gender-specific implications in Lesotho, as they are likely to disproportionately affect women, who are predominant in Lesotho's export-oriented apparel sector.

III. GENDER RAMIFICATIONS

The trade-led structural transformation in Lesotho, specifically the fast expansion of supply and trade capacity in the apparel sector, has had strong redistributive effects across sectors and individuals. Overall, it has created opportunities for women's empowerment and well-being through job creation in export-led sectors; but it has also contributed to new patterns of inequality and vulnerability.

The trade-led expansion of Lesotho's apparel industry has created a large number of new jobs in Lesotho, most of which have been filled by women. Under AGOA, Lesotho's clothing industry has grown to be the country's single largest employer with some 48,000 jobs in 2004, compared to only about 10,000 in 1999. Women make up the bulk of this workforce. The Lesotho case study thus confirms that trade policy (in this case, preferential access to US markets) can play a catalytic role in job creation for women. Most significantly, trade-led developments have created a large number of new jobs for underprivileged, relatively unskilled women who would otherwise have little chance of being

quality of the employment created (wages, working conditions and skills development), the spillover effects within the economy, and new patterns of vulnerability to external shocks.

Wages in the textile and apparel sectors are low in real terms. At the lowest wage scale, a general worker in Lesotho's textile and apparel industry earns a minimum of 44 maloti per day, or 208 maloti per week, or 833 maloti per month (equivalent to about $5, $26, and $103). Considering that the average monthly cash expenditure on food and beverages for all households was 405 maloti in the 2002/2003 Household Budget Survey, wages allow only for the coverage of basic subsistence expenses. Working conditions are hard. Furthermore, female job segregation in the unskilled/labour intensive nodes, and the segregated nature of tasks within each node, have significantly limited skills development.

The spillover effects within the economy have been modest. There have been limited effects on government revenue, as export-oriented (outside SACU) manufacturers benefit from a number of tax incentives that curtail their contribution to the national budget. Nor have any significant industrial linkages involving local small and medium-sized enterprises (SMEs) and fostering local skills been developed.

Finally, although formal employment in the apparel sector has been a positive development for many women, it has also made women particularly vulnerable to external shocks and changes in the international trade environment. This vulnerability is particularly acute in light of the fact that textile and apparel workers would face many difficulties in adjusting to trade policy changes. The limited effect of foreign investment on fostering skills development in Lesotho's apparel sector, and the low wage levels, which do not allow building up substantive sav-