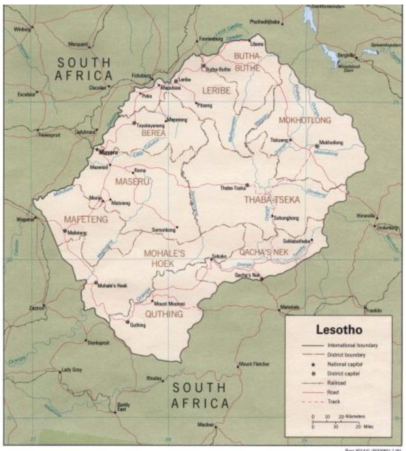
Lesotho Textile and Apparel Brief

The USAID Southern Africa Trade Hub: Enhancing Economic Growth and Food Security through Trade



Map from www.nationsonline.org

Lesotho, a landlocked country more than 3,000 feet above sea level, has a land area of almost 12,000 square miles (slightly smaller than the state of Maryland). It is served by air, rail and road links to all of South Africa's major urban centers and ports. Lesotho's capital, Maseru, is located 370 miles from Durban, South Africa's busiest harbor, and is only one hour by air or four hours by road from Johannesburg, the commercial heart of South Africa. The country's official languages are Sesotho and English. The literacy rate (defined as any individuals over the age of 15 who can read and write) is 84.8 percent. It enjoys a stable social and political environment, and its legal system is based on English common law and Roman-Dutch law.

www.satradehub.org

The garment industry in Lesotho has grown at an extraordinary pace over the past 12 years and is now the largest private sector employer in the country. Passing of African Growth and Opportunity Act (AGOA) duty-free legislation in 2000 aided the garment industry's growth tremendously. Lesotho's textile and apparel industry employed fewer than 15,000 workers in 2000; just four years later, 54,000 workers were employed by the industry.

Furthermore, over the past five years, Lesotho garment manufacturers have widened the range of products they produce on a regular basis. Lesotho was known as a volume manufacturer of jeans and t-shirts, but recently firms have expanded their range of products to include more complicated sewing and finishes, and some have added the ability to complete shorter runs for smaller orders.

The clothing and textile industries in Lesotho maintain highly competitive wage rates, relatively sophisticated garment value-adding services, and an adequately skilled labor supply. Furthermore, the regulatory environment is manageable. The minimum wage for clothing, textiles and leather manufacturers in Lesotho is between \$100-\$120 a month depending on the skills and length of service, and the terms and conditions of employment prohibit child labor. A significant proportion of the labor costs of operating a plant in Lesotho are tied to engaging expatriate staff, mainly from Taiwan and China. Long lead times and the inability of many large manufacturers to undertake smaller orders make servicing export markets difficult.

While wage rates are competitive, productivity is relatively low, and costs for electricity, water and transport are rising. The industrial water and sewage tariffs include a base of US\$28 and US\$1.12 for every 1,000 liters of water consumed. For industrial consumers using low voltage who regularly have a maximum demand in excess of 25kVA, the tariff is US\$21 and US\$.020 per kWh. For major industrial consumers using high voltage, the tariff is US\$19 and US\$.02 per kWh. All high voltage metering equipment costs must be borne by the consumer.

TEXTILE AND APPAREL LANDSCAPE

Lesotho's garment industry consumes approximately 20,000 metric tons (MT) of knit fabrics per annum. The knit garment industry could readily support up to two fabric knitting mills with a capacity of 400 MT per month (5,000 MY/year) each. The only company with spinning facilities is Formosa Textiles; the facilities are used

HISTORY OF THE INDUSTRY:

By the early 2000s, Lesotho clothing manufacturers were of Taiwanese origin, and garment exports were heading to the United States. In 2003, the Nien Hsing Textile Company, headquartered in Taiwan, invested $100 million in an integrated (spin and weave) denim mill called Formosa Textiles. This remains the only upstream textile processing facility in Lesotho. Formosa Textiles also has the only weaving mill in Lesotho. All weaving and indigo dyeing equipment was new at its time of installation in 2003. Formosa employs approximately 400 people in the weaving and indigo dyeing divisions. Cotton yarn requirements are sourced from their OE and RS mills. The only yarn it imports is CF polyester and is texturized in-house. Formosa has 130 looms installed with a capacity to produce 1.6 million yards per month with fabric widths of 64 inches. Seventy to eighty percent of Formosa's fabric production is sold to three related denim jeans manufacturing operations located in Lesotho including Nien Hsing Industrial, C & Y Garments and Global Garments for exports.

In 2005, the expiration of the Multi-Fiber Arrangement and ensuing flood of exports from China led to a dramatic decrease in Lesotho's exports to the United States. However, by 2006, South African garment manufacturing firms began opening operations in Lesotho producing garments almost entirely for the South African market. As a result, the product portfolio of Lesotho firms has expanded. Traditionally, jeans and knit garments including t-shirts, polos, tracksuits, hoodies and pajamas were manufactured in Lesotho, but the South African manufacturers added menswear, womenswear and workwear. The EU market is also once again being explored.

Between closures and newcomers, there are approximately 40 larger garment manufacturers operating in Lesotho. Most are located in the Maseru and Maputsoe areas. Of the 40 garment manufacturers, 14 produced woven garments including jeans (8 firms), workwear (2 firms) and womenswear and menswear (3 firms). They employed 15,900 people.

both in-house (denim weaving) and by third parties in Southern Africa. The plant can consume 1,600 tons of cotton lint per month, but consistently operates below maximum capacity. Formosa's cotton lint is primarily sourced (90 percent) from the African continent, especially from Zambia, Mozambique and Zimbabwe.

In 2010, denim accounted for 76 percent of the fabrics used by woven garment manufacturers. This dropped to 63 percent in 2011. Against this drop in denim fabric demand, use of workwear type fabrics rose from 11 percent in 2010 to 20 percent in 2011. The denim fabrics are all cotton-based, some with spandex for stretch purposes. On the workwear fabric side, the bulk is polycotton (65/35 and some 80/20 polyester/cotton blends). The vast majority of workwear fabric sits around the 220 grams per square meter mark.

Photo: Southern Africa Trade Hub

It is estimated that 75-80 percent of the fabrics sourced for the woven garment sector originate from the East, including China, India and Pakistan. Seventy-six percent of the fabrics used are declared as third country fabrics. Seventy-five percent of garment trims (zips, buttons, sewing thread, tapes and elastics) destined for the South African market are sourced from the East. For companies focused on the US market, 75-100 percent of garment trims are sourced from the East.

Woven garment production is estimated at 2.44 million garments per month in 2010, dropping to 2.38 million garments per month in 2011. In 2010, 76 percent of production was jeans wear, 11 percent workwear and 17 percent for menswear and womenswear.

This ratio changed in 2011 to 63 percent jeans wear, 20 percent workwear and 17 percent for menswear and womenswear, a significant product diversification from 2004 when 98 percent of all woven products made in Lesotho were jeans wear. Eighty percent of woven garment sales were exported to the US in 2010, dropping slightly to 77 percent in 2011. This represents a significant market diversification from 2004 when almost all production was exported to the United States.

In 2011, there were 27 knit garment manufacturers in Lesotho employing 22,351 workers. This is a growth of 8 percent from 2010. Knit garment production is estimated to have been 6.6 million units in 2011. In 2011, approximately 82 percent of sales were destined for the United States, 17 percent for South Africa and about 1 percent for the European Union. This represents a significant product diversification from 2004 when less than 5 percent of all sales of knit garments headed to South Africa.