

NUL WTO CHAIR RESEARCH SEMINAR

The Impact of Industrialization on Economic Growth

Relebohile Ramakhale
Director Industry
Ministry of Trade and Industry

Introduction

Manufacturing sector growth is a leeway to spur economic growth and employment. Industrialization is therefore an important intervention to promote economic growth.

The role of the government is therefore to **facilitate the industrialization process** by creating an enabling environment which will **sustain industrial activity and encourage further investment in industrial enterprises.**

Industrial Development has had a significant impact on the **Economic Growth in Lesotho** before the Covid-19 pandemic as it positively contributed to:

- Household Income for most families
- Transportation of workers
- Street vendor businesses
- Lodging Income

The Lesotho Industrial Sector is presently dominated by enterprises which concentrate on the production of garments for export.

We, however, advocate to:

- Promote **diversification** of industrial activity and **value-addition** (e.g. establishment of wool and mohair scouring plants, diamond cutting and polishing and re-establishment of cannery facilities).
- Government also promotes investment in non-textile products. Areas where Lesotho appears to have the greatest comparative advantage include: operations requiring labour-intensive assembly of imported components, (such as electronic and electrical

goods) and the processing of local agricultural and mineral raw materials to add-value in-country prior to export.

To pursue **diversified** Investment from Textiles and Garments Government has developed two Industrial Estates:

New Industrial Estates

Two (2) industrial estates, Tikoe Phase III and Belo Industrial Estate

- Tikoe Phase III
 - 7 Factories (Tikoe Industrial Area) have been developed
 - Estimated employment to be generated: 2, 750-jobs
- Belo Industrial Estate Phase-1
 - 16 Factory shells (**out of a total of 51**) are about completed
 - Number of jobs to be created is estimated at 14, 250-jobs

COVID-19 Impacts on Employment

Employment: Employment in the Textile industries was hit very hard by the Covid-19 Pandemic as it disrupted global supply chain of goods and services. For Lesotho's manufacturing (textile) industry, this led to **unemployment, food insecurity and general welfare inequalities**.

The Manufacturing Sector employed around 40, 436 workers by June 2022 including 35, 236 from the 42 factories in Textile & Garment sector. By June 2021 the manufacturing industry had employed around 39, 609 workers; including 34, 126 workers from the Textile & Garment industry.

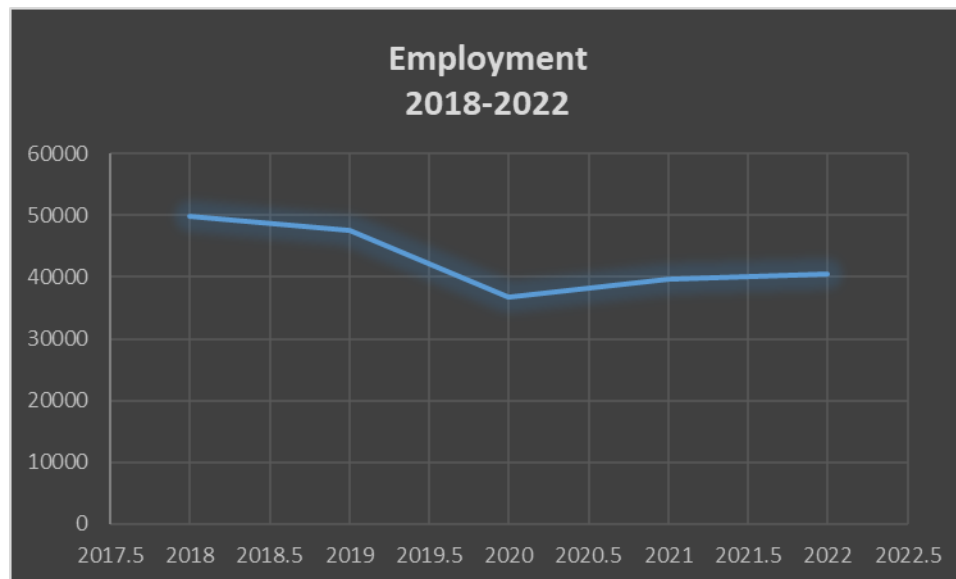
Factories Downsizing: The issue of the lay-off is still occurring since business has not fully recovered. The cause of the high rate and ongoing lay-offs is the limited order-allocation to Lesotho factories and to some extent some delays on Imports of Raw Materials after the COVID-19 era.

Table 1 below reflects the current permanent, casual and expatriate employees in the textile and garment industry from 2018 up to 2022, and the impact of Covid-19 on the Employment in the Textile Industries.

X-axis reflect the Employment

Y-axis reflect the year of Operation

Table 1: Permanent, Casual and Expatriate Employees in the Textile and Garment (2018 – 2022)



AVAILABLE EXPORT MARKETS FOR LESOTHO

Through AGOA (African Growth Opportunity Act), the US has been the largest export mkt for Lesotho commodities, however, it may expire in 2025.

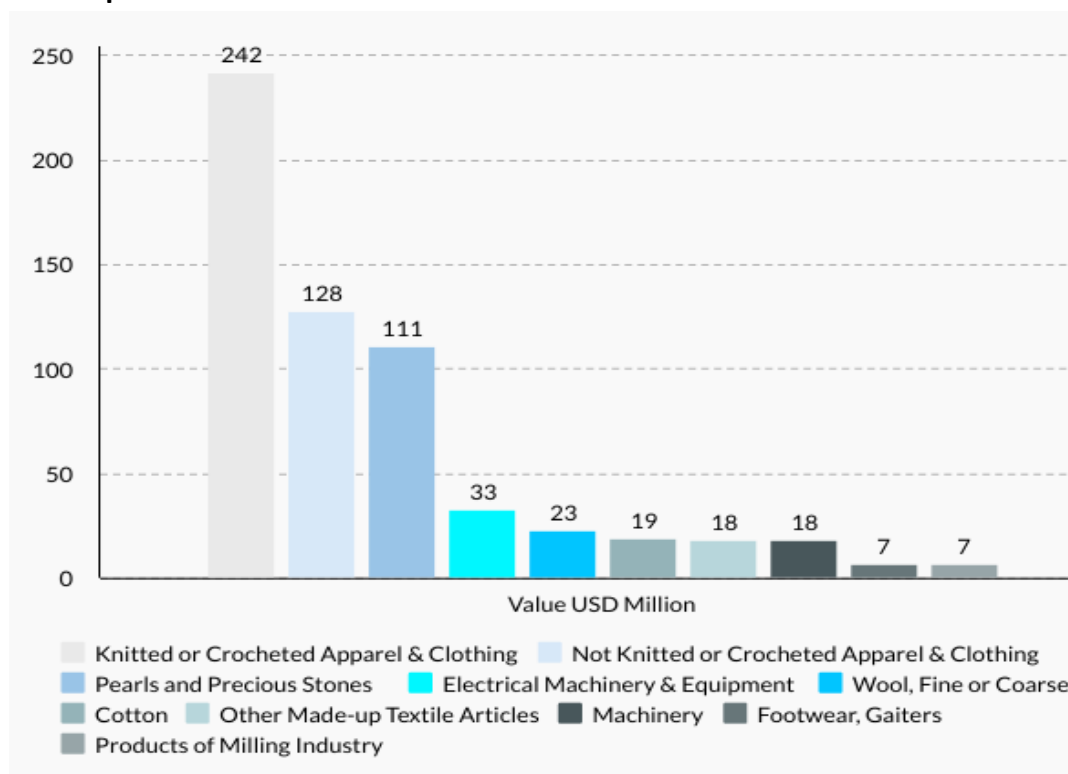
Other Markets for Lesotho's Exports (Besides the AGOA)

The other two large markets for Lesotho outside SACU market are European Union (EU) and United Kingdom (UK). These two markets are available, even though the industries have not yet taken advantage of them.

Their business dynamics are different to the US Market (AGOA) which makes it a bit difficult for industries to immediately access them, **there is need for strategy and more incentives.**

The South African Market is the second largest export market for Lesotho after US market for Lesotho Textile & Garments Industry. The market was however badly affected by the Covid 19 pandemic and this resulted in the decrease of the export value from **\$282 Million in 2019** by **13.2% in 2020** to **\$245 Million. The decline was the result of the COVID-19 lockdown** during the year 2020 and the graph below shows the Lesotho-SA export values in US Dollars from 2015 to 2020.

Lesotho-SA Export Products 2022



The other market access agreement which Lesotho is part of its negotiations is the African Continental Free Trade Area (AfCFTA), and under this trade agreement, African member states trade among each other. The Trade negotiations under the Textile & Garments products is not yet completed, as issues pertaining to Rules of Origin (RoO) are still outstanding

SACU and SADC Value-Chains

SACU Value Chains – To enhance competitiveness and market access, SACU discussions surrounding value chains agreed upon meat products; i.e. building on local capacity of rearing piggery and poultry, then building the infrastructure (slaughter facility). This has been deemed a low-hanging fruit for development of value-chains.

There are however a further 4 value chains that can be developed: Horticulture and Agro-processing, Pharmaceuticals and Cosmetics, Leather and Leather products and Textiles.

SADC Value Chains

Products identified are: Wheat, Cotton, Soya Beans, etc. This initiative is still at the earliest stages and if worked-on properly may yield some positive results for the country

POLICY : Industrial Policy

*The Policy document is currently **outdated** and most of the issues have been overtaken by events hence it requires urgent review. The review process has been delayed due to **financial constraints**.*

IP provides a framework and strategic focus to guide government actions relating to building and promotion of the **Industrial sector**.