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Africa Growth and Opportunities Act (AGOA): Economic Impact and Future Prospects

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Introduction

The United States (US) Government signed AGOA into law in May 2000 with the major objective of promoting economic development and reform in Sub-Saharan Africa (SSA), by encouraging increased investment and trade between SSA and the US. In particular, AGOA eliminates tariff barriers on a large range of products exported from AGOA eligible SSA countries to the US market.

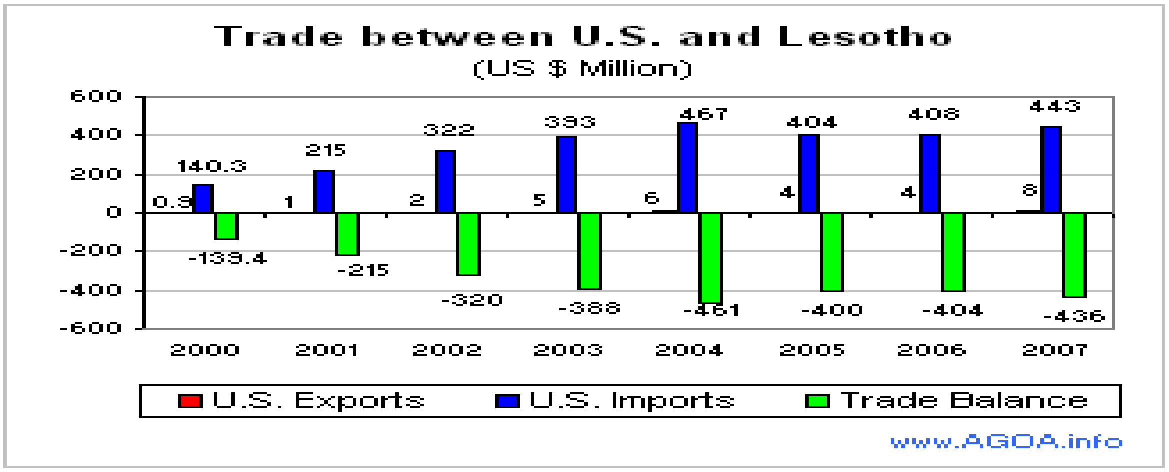
Lesotho was designated as eligible for the trade benefits that are offered under AGOA on 2 October 2000. Lesotho satisfied the requirements of AGOA with effect from 23 April 2001 and started exporting textiles under AGOA in the same year. Thus this article assesses the economic impact of AGOA in Lesotho. This is in line with the discussions that took place during the 10th AGOA Annual Forum, which was held in Lusaka, Zambia in June 2011. During this Forum, topics around the theme, "Enhanced trade through increased competitiveness, value addition and deeper regional integration" were deliberated upon. The main objective of this forum was to examine ways to improve the effectiveness of AGOA in strengthening trade and investment in SSA.

The Impact of AGOA on Lesotho's Economy

Ministers of Trade from AGOA-beneficiary countries that participated in the 10th AGOA Forum indicated that their countries have derived a number of benefits from AGOA. In particular, these include, increased trade with the US, diversification of exports to the US, job creation and new investments, *inta alia*. However, the magnitude of the benefits has varied across countries. This year marks the tenth year since Lesotho started exporting to the US under AGOA. It is, therefore, important to assess the impact and effectiveness of AGOA in enhancing Lesotho's economic growth.

Lesotho's total exports have increased quite significantly since 2001. As depicted in figure 1 below, this mainly reflected a surge in Lesotho's exports to the US market. Lesotho's exports to the US are dominated by apparel, making this country one of the major exporters of apparel to the US. AGOA has given Lesotho the opportunity to export apparel duty and quota free to the US. Empirical studies have indicated that SSA's exports to the US have risen quite significantly since 2000. However, only a small share of this increase can be directly attributed to AGOA. Apparel is said to be the only product grouping in which AGOA appears to have stimulated a significant growth in exports. A few studies have found a strong positive correlation between increased SSA's apparel exports and AGOA. Shapouri and Trueblood (2003), Brenton and Ikezuki (2004), Brenton and Hoppe (2006) and Office of the US Trade Representative (2008) have reviewed raw trade data on SSA exports to the US and all find evidence of significant and increasing apparel exports under AGOA.

Figure 1



AGOA has also contributed to the increase in foreign direct investment (FDI) in Lesotho. Following the inception of AGOA in Lesotho in 2001, a number of Asian investors, in particular Taiwanese and Chinese came to Lesotho to benefit from duty and quota free access to the US market. This resulted in an increase in the number of manufacturing companies from 23 in 2000 to around 70 in 2008. Consequently, FDI increased and has become the largest contributor to capital inflows to Lesotho. Between 2003 and the third quarter of 2007, direct investment reached an average of 149.6 percent of Lesotho's net capital flows. In addition, AGOA has contributed to a deepening of the textile industry in Lesotho from simple cut make and trim operations to fabric production. A denim mill was built for around US$100.00 million and started producing the denim fabric in 2001. In addition, a few weaving and knitting factories have been opened since the inception of AGOA.

AGOA gave an additional boost to the manufacturing sector's contribution to economic growth, particularly textiles and clothing. The sector's contribution to growth increased from 12.8 per cent in 2000 to an average of 19.4 per cent in 2001, 2002 and 2003. Textiles and clothing manufacturing played a major role in this improvement. However, the sector's contribution to growth declined in 2005 and has been under pressure ever since. A number of factors, including the phasing out of the multi-fibre agreement in 2005, the appreciation of the loti against the US$, and recently the low demand in the US, amongst others, have played a role in this deterioration. In addition, the growth of the manufacturing sector created employment for a sizable number of Basotho mainly because it is labour intensive. Employment by the sector grew from around 19 000 in 1999 to around 45 700 in June 2011. In addition, the manufacturing sector became the largest employer in the country, surpassing Government for the first time in 2001. In particular, the sector has created jobs for low skilled Basotho, mostly women, who in the past were not able to be part of the formal wage employment. Though the wages offered by the sector are very low, the sector makes a minimal contribution in the improvement of social lives and poverty reduction. The wages are so low that most of the employees fall outside the income tax net.

The growth of the textile and garment industry in Lesotho has also stimulated infrastructure development, especially factory shells. Lesotho is currently in the process of building the Metolong Dam, which will increase water supply to Lesotho's lowlands to meet the rising demand by the expanding manufacturing sector. It is not only the industrial sector that will benefit from this initiative, but the general public as well since it will facilitate expansion of water supply and increase access to portable water by households, schools and other businesses in Lesotho.

Challenges

One of the major potential benefits of FDI is skills transfer by foreign investors to the local employees. Skills creation in Lesotho's textiles and apparel manufacturing is skewed towards basic production requirements only. On the job training is offered to local employees on handling sewing machines, cutting, pressing and the like. Supervisory and managerial positions are occupied by expatriates. There is some evidence that most of the skilled personnel in the industry are from Asia and Basotho employees are not being trained to take over their places.

One other important potential benefit of FDI in developing countries is the stimulation of local entrepreneurship through knowledge spill overs and/or backward linkages. Practically, all of the textiles and clothing firms in the country are foreign owned. No local firms have been opened to compete with foreign owned firms or to supply them with services and inputs such as packaging materials or accessories.

Wages offered by the textiles and clothing manufacturing sector are low. This is because the setting of minimum wages in Lesotho, which is done every year, is sensitive to the textile and garment industry's need to maintain competitiveness. Riley and Benvenisti (1998) contend that labour costs in Lesotho are, in nominal terms, 2 to 3 times lower than in South Africa. The competitive labour costs enhance Lesotho's attractiveness as an investment destination (Riley and Benvenisti, 1998). However, they have very little impact on improving social lives and on poverty alleviation.

The high concentration of Lesotho's exports, which are mainly apparel, means that Lesotho is not taking full advantage of the benefits offered by

AGOA. In addition, the high concentration leaves the economy over-exposed to shocks that could have negative repercussions for the textiles and apparel manufacturing sector. Lesotho could exploit further benefit of AGOA by producing and exporting other products that are in the list of AGOA eligible products. Doing this would help Lesotho to build the basis for export diversification, which can help the country to overcome export volatility.

The third country fabric provision, which allows AGOA beneficiary countries to source fabric for production of apparel for export to the US from anywhere, expires in 2012. After 2012, countries will be expected to use fabric made in beneficiary countries, from yarn originating either in the US or in beneficiary countries to manufacture apparel for export to the US under AGOA. This means that after 2012, Lesotho will no longer be able to import cheap fabric from Asia for manufacturing apparel for export to the US. This will likely increase production costs of Lesotho's manufacturing sector. This is because the textile industry in Africa is not as developed, cheap or diverse as in Asia. In addition, the US textiles industry, though much more developed and diverse is expensive and US goods face higher transportation costs to Africa than Asian ones.

AGOA is a unilateral tariff scheme and not a free trade agreement. The US, unilaterally, determines and sets the criteria for SSA countries to qualify for receiving AGOA benefits. In addition, trade concessions under AGOA are temporary, though they are periodically reviewed and have been extended twice since the inception of AGOA. The temporary nature of AGOA induces reluctance by foreign investors to make major long-term investments and creates policy uncertainties. The present incarnation of AGOA will expire in 2015, after which the preferential treatment of SSA's exports to the US will cease to exist. If the US does not extend AGOA beyond 2015, it means that SSA's exports will have to compete with cheaper Asian exports for the US market.

Conclusion and Recommendations

AGOA has imparted significant and valuable benefits to the economy of Lesotho. It has given a boost to exports of textiles and clothing, increased FDI and the manufacturing sector's contribution to economic growth. It has also reduced unemployment in Lesotho by creating jobs for low skilled workers, particularly women. Notwithstanding these positive contributions, there are some challenges that threaten the effectiveness of AGOA in strengthening trade and investment in Lesotho and making a significant contribution towards poverty reduction and its ultimate eradication. In light of the analyses of the benefits and challenges of AGOA made above, the following recommendations are made to increase the magnitude of benefits and boost the effectiveness of AGOA on Lesotho's economy.

- Lesotho should strongly support other AGOA beneficiary countries in urging the US to extend AGOA beyond 2015 and the third country fabric provision to run concurrently with AGOA after it expires in 2012.

- The high dependency on preferential market access for the exports of textiles and clothing needs to be reduced. Lesotho should use the remaining AGOA period to strengthen its competitiveness so that her exports could compete for the global market on an equal footing, that is, without preferential treatment, with countries like China. This could be achieved by, amongst other things, investing resources in human capital development to enhance labour productivity in Lesotho's textiles and clothing sector,, which is said to be very low compared with more competitive countries like China and Singapore. In addition, the business environment should be improved to make it easy for both local and foreign entrepreneurs to start and operate businesses in Lesotho. Provision of the necessary infrastructure could also attract investment into Lesotho.

- The need for export product and market diversification by Lesotho cannot be overemphasised. The high reliance on textiles and clothing and on the US market makes Lesotho highly susceptible to shocks that could negatively affect exports as has been demonstrated by the recent recession. Studies such as the "Lesotho Potential Export Diversification Study" have identified products in which Lesotho could have comparative advantage and potential additional markets for her products. Efforts should be geared towards attracting both domestic and foreign investment in such areas. Besides, the list of AGOA eligible products is long enough and diversification could help Lesotho to reap more benefits from AGOA.

Information and Communication Technologies (ICT) Innovation in Mobile Technology and Economic Growth: Implications for the Economy of Lesotho

The rate of growth of innovation in mobile technology and its penetration is rapidly increasing, changing the face of human life forever…………………………………………….……..

Introduction

In the last half of the twentieth century, trends in telecommunications have revolutionised the way business is done, and people's lives have been irreversibly changed. This pace can be seen in improved standards of living and business growth, which in turn, have acted as catalysts for social and economic growth around the globe. The impact of improved telecommunications services, in particular, mobile technology, has also gone far beyond economic and social spheres into politics. Nonetheless, the current article will exclusively concentrate on economic and social impact of the increased mobile technology, especially mobile phone technology and the relevant telecommunications infrastructure. It will highlight the impact on sectors where mobile phone technology is notable or at its peak.

Overview of Mobile Telephony Sub-sector in Lesotho

The telecommunication sector had been monopolised by state since 1980 when the Lesotho Telecommunications Corporation (LTC) was established. However, it has since been privatised and two mobile operators have come into operation since 1996 when Vodacom was launched and in 2002 when the then Econet Ezi-Cel (EEC) Lesotho came into operation. EEC is now called Econet-Telecom Lesotho. These two are the only competitors in the mobile telecommunications sector despite the large market share of Vodacom. Although the sector is growing, the main developments are concentrated in the urban areas while some projects are being rolled-out to reach the rural Lesotho.

Moreover, efforts are being made to fully liberalise the sector, allowing it to contribute substantially to the economic and social development of the country. In this case, some regulatory and technology-related impediments are being removed, thus making the legal framework of the sector conducive for investors.

At around 35.0 per cent at the end of 2010, mobile penetration rate has increased from 26.0 per cent in April 2009. The fixed-line penetration was, however low at around 2.0 per cent at the end of 2010. The number of mobile telephones has overtaken the fixed line phone since 2001. Vodacom Lesotho is the leading operator with a market share of around 80.0 per cent.

Up until recently, Lesotho does not have a national broadband policy, which would enable it to catch up with the more advanced countries in mobile technology. Nonetheless, efforts are underway to establish a broadband policy. This will enable Lesotho to tap a vast array of benefits that broadband has the potential to bring about.

Mobile Telephony and Economic Growth

Mobile telephony has grown rapidly in the last decade and is expected to expand further going forward. In Sub-Saharan Africa alone, mobile phone subscriptions have increased by 49.0 per cent annually between 2002 and 2007 according to International Telecommunication Union (ITU). The rapid growth of mobile phone coverage has thus generated a lot of benefits by positively affecting economic growth and development around the globe. By exploring the main channels through which mobile phone adoption and coverage can affect economic growth, the accruing benefits of using mobile phone devices could be appreciated.

First, mobile phones can affect economic growth and promote development by increasing firm productivity. For example, using internet connected mobile phone can increase the efficiency of management of firms by improving communication between different chains of firm's operations. In this case, supply chains between suppliers and firms could be enhanced. This could further augment the productivity of the relevant firm, thereby increasing the value added by that firm in the total gross domestic product.

Second, mobile phones can impact on economic growth by enabling job creation. For example, with the current rising demand for mobile technology in virtually every corner of the world, the number of mobile phone operators is also increasing. This is positively affecting the formal sector employment in the telecommunications sector. In addition, the informal sector is also reaping the benefits of mobile phone sector. Mobile phones are inducing the spirit of entrepreneurship across a wide variety of business sectors indirectly contributing to employment creation. For example, most Africans are using pre-paid phones and this has enabled the mobile phone companies to create extensive mobile phone credit distribution networks.

Third, mobile phone services and applications can facilitate economic growth through a variety of financial transactions and inclusion. This includes airtime transmitting, paying bills and transferring money between individuals. In this way, mobile technology promotes access to financial services to previously denied parts of the society in developing countries. Mobile money programs, called M-Pesa, have been introduced in Kenya in 2007 to facilitate these financial transactions.

The economic impact of these programs range from transactions costs reductions to improvement in financial inclusion even to those who were previously marginalised. These further reduce the impact of financial infrastructure gap where the costs of distance and time are very high for formal banking services. ICT innovation in mobile telephony improves access to credit and deposit facilities by allowing analysis of credit worthiness of individuals, allowing more efficient allocation of credit, and in turn, stimulating private investment which is conducive for economic growth.

On the other hand, mobile phone penetration has a positive effect on society and, in turn economic growth and development. In this case, it is argued that they can be used to improve health of the society, its education governance and agriculture, inter alia. First, mobile phones can be used as development tools in health by tracking and monitoring an outbreak of natural disasters and diseases. They are also being used to send health education messages across the globe. In addition, mobile phones can be used as an enabler of agricultural market information access, thereby helping the agriculture-dependent societies, especially in Africa. For example, consumer prices for grains and other agricultural commodities can be transmitted through mobile phones.

Moreover, progress in ICT innovation in mobile telephony is radically transforming governance around the world. Mobile phones are assisting with election monitoring around the globe. Social media mobile applications and devices in mobile phones are also used to change old regimes that no longer serve the interest of the society. For example, in Middle East and North Africa, mobile phones with applications like facebook, blogs, twitter and many other social media networks have changed the face of political, economic and social life of the people. This is expected to improve the well being of the relevant societies and enable their economic transformation.

Finally, we look at the positive relationship between mobile telephony expansion and education. Currently, developments in new mobile phone technology are witnessing a proliferation of high-speed internet, broadband and other related devices. This is impacting positively on education because students can use installed applications to access educational materials from outside the classroom. The use of other sophisticated applications installed in a phone could also be used to track student's absenteeism, sickness, progress reports and a host of other benefits. Moreover, the improved level and rate of education will spill over to efficient and effective usage of ICT, forming a virtuous cycle by promoting economic growth. This could ultimately lead to poverty reduction in the long run.

Implications for the Economy of Lesotho

Innovation in ICT development, especially mobile telephony is gaining traction globally. This is enabled by many factors ranging from the legal and regulatory framework to initial country-specific conditions. As part of the global network, Lesotho cannot be left behind.

In this regard, Lesotho is poised for new innovations and challenges in mobile sector development. Innovation in mobile technology is expected to impact positively on the economy of Lesotho. As earlier mentioned, the growth of the telecommunications sector and its increasing contribution to economic growth will be enhanced substantially. The current transformation through the policy reforms and new products are expected to further enhance the role played by this sector in economic growth and social development.

The rapid expansion of mobile phone services and the sector itself indicates growth of investment in the telecommunications sector and an increase in related infrastructure. As this is rolled-out, the impact on economic growth cannot be underestimated.

Moreover, current membership of Lesotho in the international communications network is expected to bring worthwhile benefits. Lesotho is expected to benefit a lot from the East African Submarine System (EASSy) that links Lesotho with the rest of the world. EASSy will bring internet services at high speed but low cost.

TABLE 1: SELECTED MONETARY AND FINANCIAL INDICATORS

	2011		
	April	**May**	**June**
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	10.33	10.33	10.50
1.2 Prime Lending rate in RSA	9.00	9.00	9.00
1.3 Savings Deposit Rate	1.21	1.21	1.21
1.4 Interest rate Margin(1.1 – 1.3)	9.12	9.12	9.29
1.5 Treasury Bill Yield (91-day)	5.40	5.36	5.36
2. Monetary Indicators+ (Million Maloti)			
2.1 Broad Money (M2)	6465.31	6591.51	6386.45
2.2 Net Claims on Government by the Banking System	-2716.60	-2613.50	-3021.99
2.3 Net Foreign Assets – Banking System	10009.45	9839.47	9462.24
2.4 CBL Net Foreign Assets	6749.51	7191.62	6915.10
2.5 Domestic Credit	-330.70	-166.86	-431.60
2.6 Reserve Money	969.46	936.15	804.53
3. Spot Loti/US$ Exchange Rate (Monthly Average)	6.73	6.85	6.80
4. Inflation Rate (Annual Percentage Changes)	4.1	4.3	4.7

+These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho.