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## Trade Liberalisation Under AGOA: A Case Study of Lesotho's Textile Export Performance and Developmental Outcomes

Anandita Dhaka

Faculty of Social and Historical Sciences, University College London, United Kingdom.

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### Abstract

The study examined the impact of the African Growth and Opportunity Act (AGOA) on Lesotho's textile and clothing industry, evaluating its role in fostering export growth, structural economic change, and employment. The study employed empirical analysis of trade data, economic indicators, and theoretical frameworks – including the Specific Factor Model (SFM) and gravity model of trade – to assess how AGOA's preferential market access influenced Lesotho's sectoral development. The findings revealed that AGOA significantly boosted Lesotho's textile exports, which grew to constitute nearly 20% of GDP by 2020 and positioned Lesotho as a leading apparel exporter to the USA from Sub-Saharan Africa. The policy facilitated a shift in economic structure, with manufacturing – particularly textiles – driving growth in the secondary sector and contributing to increased female labour participation. However, the benefits were uneven: while employment expanded, real wages stagnated, and foreign-dominated ownership limited local skill development and reinvestment. Theoretical analysis indicates that tariff elimination under AGOA increased the USA demand and reallocated labour within Lesotho's economy, though the dismantling of the Multi-Fibre Agreement (MFA) in 2005 intensified competitive pressures. The study concludes that while AGOA successfully stimulated export-oriented growth, its broader development impact remains constrained by structural weaknesses. Recommendations include stronger local content rules, wage protections, and incentives for domestic reinvestment to enhance sustainability and equity in trade-led development.

**Keywords:** African Growth and Opportunity Act (AGOA); Lesotho; Textile industry; Economic development; Export-led growth; Specific Factor Model (SFM); Multi-Fibre Agreement (MFA)

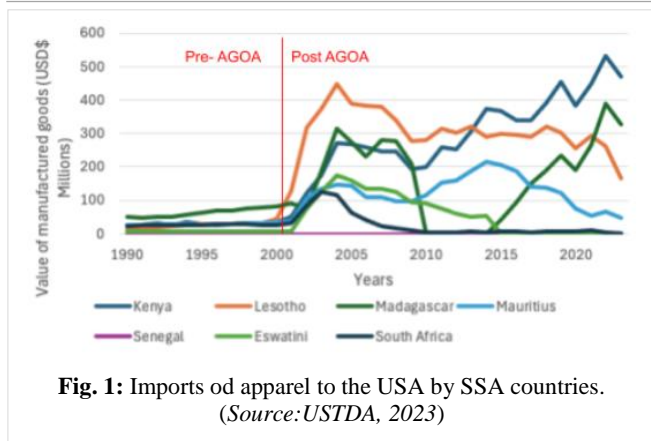
### INTRODUCTION

Africa experienced a severe economic downturn during the 1980s, with GDP per capita declining by 1.3% annually—far below the average for other least-developed countries (LDCs) (UNCTAD, 2000; Simson, 2025). By 1990–1994, the gap widened to 6.2%, driven largely by the continent's limited openness to trade. Trade has been validated to be particularly impactful for Africa, with research proving that trade restrictions have disproportionately hindered Africa's economic growth compared to other regions. This emphasises the transformative potential of international trade in fostering development and global integration for the region (Collier and Gunning, 1999).

This paper examines the impact of the African Growth and Opportunity Act (AGOA) on Lesotho's textiles and clothing industry and its broader economic implications. Introduced

by the United States in 2000, AGOA offers eligible Sub-Saharan African (SSA) countries tariff and duty-free access to U.S. markets (Rodrik, 1998). For Lesotho, one of the region's smallest economies, AGOA proved transformative, making it the leading exporter of clothing to the U.S. from SSA (Lall, 2005; ODI, 2009). The imports of apparel to the USA by SSA countries, as per the 2023 annual report, are presented in Fig. 1 (USTDA, 2023). This analysis evaluates how a targeted trade policy can spur sectoral growth and better integrate smaller economies into the global market.

As the AGOA approaches its 2025 expiration, it is crucial to assess its impact on Lesotho, its most significant beneficiary, to determine the necessity of renewing the policy. Insights from this evaluation can inform the design of future trade frameworks that support other developing nations.



**LITERATURE REVIEW**

Trade liberalisation, particularly in textiles, has been a cornerstone of industrialisation for developing nations, exemplified by East Asia’s economic success in the 1970s. Engagement with western markets and trade liberalisation policies, like AGOA in this case, promoted over the years, has been able to bolster manufacturing competitiveness, further amplifying the presence of developing countries in global trade (IMF, 2023).

Additionally, AGOA’s special apparel provisions have significantly benefited LDCs, specifically Lesotho. These provisions, which allow the use of non-U.S. or non-AGOA fabrics, have enhanced competitiveness by aligning with the theory of comparative advantage. Lesotho capitalised on its abundant labour force to strengthen its position in labour-intensive industries – textiles – contributing to notable gains in both economic output and female labour force participation (Vlok, 2010; Grogan, 2023). Additionally, the implementation of the Multi-Fibre Agreement (MFA) had limited apparel imports to the USA from Asia, and opened up new opportunities for African nations to establish themselves in the global textile market. This favourable policy environment allowed Lesotho’s textile sector to thrive, contributing nearly one-third of GDP and 60% of exports by 2016 (Seyoum and Abraham, 2022).

However, scholars suggest that Africa’s difficulties in establishing a robust presence in global trade is not attributed to external trade protectionism but instead to internal challenges such as inadequate infrastructure, political instability, and unfavourable geography, as well as regional trade policies (Collier and Gunning, 1999). Wang and Winters (1998) further argue that altering internal policies, rather than those of trade partners, is key to promoting growth in Africa. However, other studies challenge this view; for instance, Frazer (2010) contends that governance factors like corruption and the rule of law have minimal measurable impact on Sub-Saharan Africa’s textile export performance.

Moreover, AGOA’s structure has allowed foreign investors to take advantage of trade benefits without restrictions. In the early 2000s, Taiwanese transnational corporations with well-established value chain links to USA buyers entered Lesotho, establishing dominance in the market. While these investments spurred rapid sector growth, they did little to foster local skill development, knowledge transfer, or

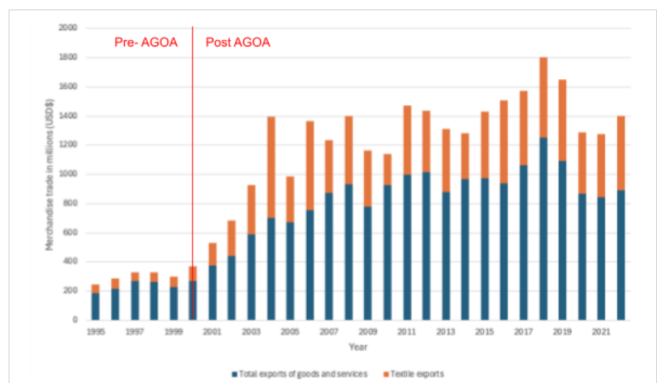
technological innovation. Consequently, Lesotho’s textile industry remained concentrated on low-value-added tasks, limiting its broader economic transformation potential (Rotunno *et al.*, 2013).

The literature presents contradictory perspectives on the role of trade policy in labour-intensive industries like textiles and its impact on Lesotho’s economic development. Through this research, I aim to offer empirical insights into AGOA’s influence on Lesotho’s textile sector, contextualised within established international trade theories.

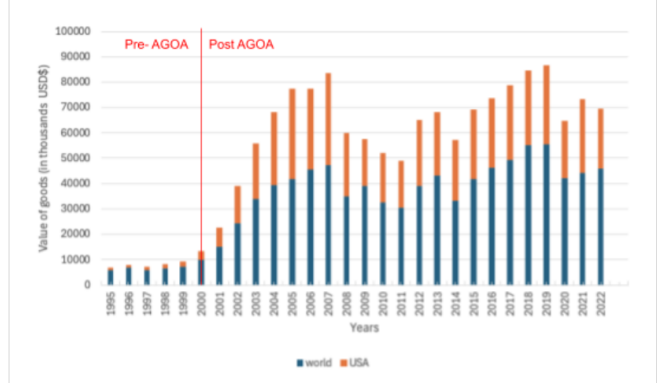
**EMPIRICAL FINDINGS**

The empirical findings from the present study are presented and discussed under two categories.

- I. Figs. 2 and 3 show a significant increase in Lesotho’s textile exports, both within total exports and in relation to global textile exports to the USA, following AGOA’s implementation in 2000. The observed downturns in the data reflect the impacts of the 2008 financial crisis and the COVID-19 pandemic, with recovery evident in the post-recession years.
- II. Fig. 4 highlights Lesotho’s shifting economic structure, marked by the decline of the primary sector and the growing stability of the tertiary sector. This pattern reflects the typical transition toward manufacturing-driven growth, where the manufacturing sector fuels productivity, economies of scale, and technological advancements (Lautier, 2024). These effects not only



**Fig. 2: Composition of Lesotho’s textile exports to total exports of goods and services.** (Source: WITS, 2022)



**Fig. 3: Textile trade from Lesotho to world and the USA.** (Source: USTDA, 2023)

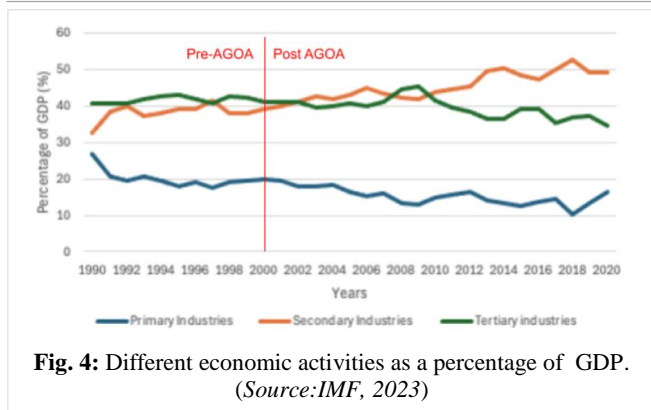


Fig. 4: Different economic activities as a percentage of GDP. (Source:IMF, 2023)

strengthen the manufacturing sector itself but also drive growth across other industries through inter-sectoral linkages. For developing nations, like Lesotho, there is a clear correlation between economic growth and the expansion of manufacturing, underscoring the pivotal role of the textile industry for the economy (UNIDO, 2009).

Fig. 5 demonstrates that the manufacturing sector is the primary driver of growth within the secondary industries. As shown in Fig. 6, the textile industry—an integral part of manufacturing—has experienced remarkable growth over time. By 2020, textiles accounted for 19.2% of GDP, highlighting its significant economic contribution. Notably, the sector's growth rate nearly doubled between 1999, just prior to the policy's implementation, and 2004, underscoring the transformative impact of the policy on the textile industry.

**THEORETICAL ANALYSIS**

Referring to Fig. 7, before AGOA, tariffs restricted textile and apparel imports to  $Q'$  (the difference between  $Q_3$  and

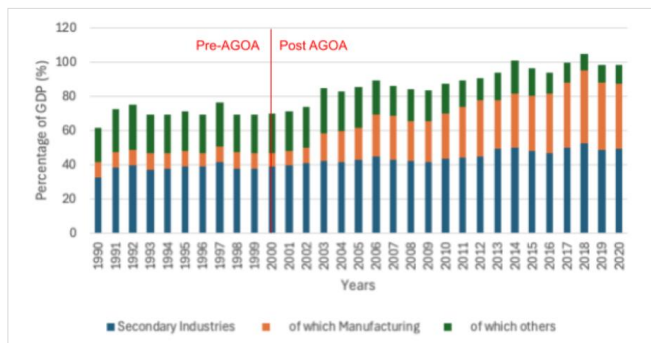


Fig. 5: Secondary industries, manufacturing and other sectors as a percentage of the GDP. (Source:IMF, 2023)



Fig. 6: Manufacturing, and textile and clothing sector a percentage of the GDP. (Source:IMF, 2023)

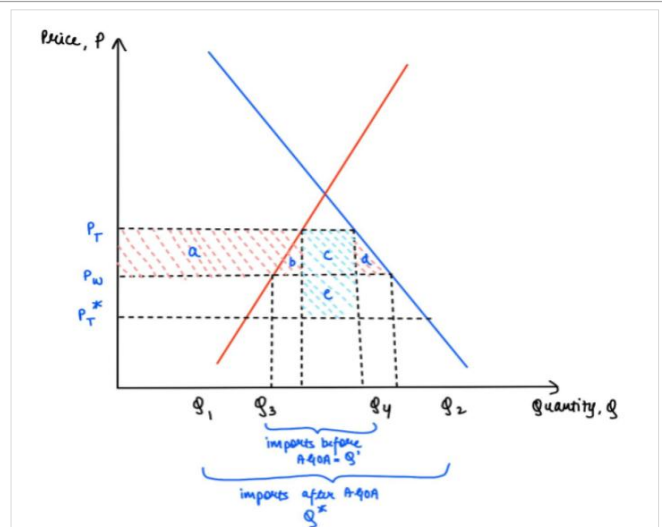


Fig. 7: Impact of the removal of tariffs for the USA economy.

$Q_4$ ). AGOA's removal of these tariffs lowered prices to  $P_W$  and expanded imports to  $Q^*$  (the difference between  $Q_1$  and  $Q_2$ ). This change boosted consumer and producer surplus by areas 'a', 'c', and 'e' respectively, but it also led to a loss of government revenue (areas 'c' and 'e'). As a result, the net welfare impact on the USA remains uncertain, dependent on whether trade gains outweigh the revenue loss.

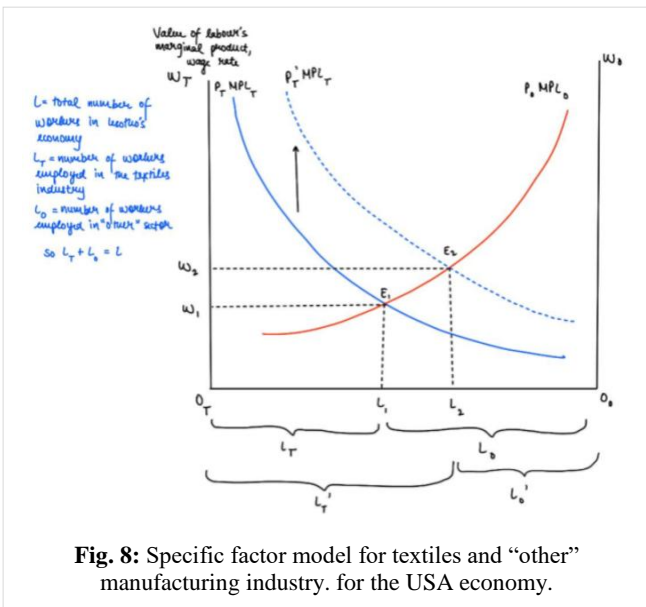
For Lesotho, AGOA's tariff elimination spurred higher global prices, motivating local firms to scale production and meet increased foreign demand. This expansion significantly bolstered Lesotho's textile industry, creating jobs and driving economic growth. At the time, the MFA imposed quotas on Asian textile exports, limiting competition and enabling SSA countries, particularly Lesotho, to secure a substantial share of the increased imports ( $Q^*$ ).

However, the dismantling of the MFA in 2005 intensified competition from Asia, redistributing the import market. Despite this, Lesotho's AGOA exports peaked in 2005 and 2006, demonstrating the industry's ability to adapt to heightened competition (Frazer, 2010).

This resilience is partly explained by the gravity model of trade, which underscores how proximity and economic size shape trade flows. While the USA is a dominant global trade partner, factors such as Lesotho's rising per capita income, geographical advantage relative to distant competitors like China and India, and the preferential trade conditions of AGOA have supported sustained trade volumes between Lesotho and the USA (Didia *et al.*, 2015).

The reduction in import tariffs under AGOA significantly boosted the USA demand for textiles and clothing from Sub-Saharan Africa. According to the Specific Factor Model (SFM), this increase in demand drives labor reallocation from less profitable industries to the expanding textiles and apparel sector. The SFM operates under the following five assumptions:

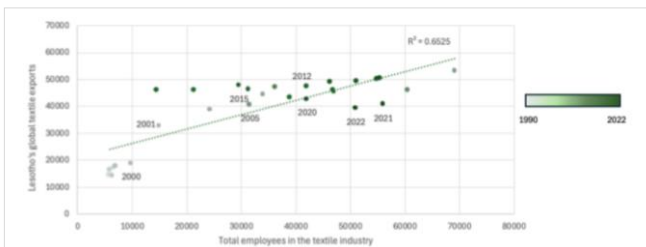
- i. The economy comprises two sectors: textiles and a general "other" manufacturing industry.
- ii. Both sectors utilize labor and capital as inputs.



**Fig. 8:** Specific factor model for textiles and “other” manufacturing industry. for the USA economy.

- iii. Production follows a neoclassical function with diminishing marginal returns and constant returns to scale.
- iv. The economy is at full employment.
- v. Markets are perfectly competitive, with wages equating to marginal productivity.

As tariffs decline, the increased demand for textiles leads to a reduction in the demand for other manufactured goods, prompting a reallocation of labour. This adjustment shifts the market equilibrium from  $E_1$  to  $E_2$ , with employment in the textile sector rising from  $L_T$  to  $L'_T$ , and labour in other sectors falling from  $L_O$  to  $L'_O$  (Fig. 8). While nominal wages grow in both industries, the price increase in textiles exceeds the growth in real wages for textile workers.



**Fig. 9:** Total employees in Lesotho’s textile industry against global textile exports. (Source:IMF, 2023)



**Fig. 10:** Change in employment and wages from 1997 to 2015. (Source:IMF, 2023)

Fig. 9 further highlights this trend, employment in the textile sector shows a consistent positive percentage change over time, as shown in Fig. 10 (Khamali and Tlelima, n.d.), while real wages experience a contrasting decline. This dynamic underscores the industry's capacity to generate jobs, even as wage growth lags.

Moreover, the  $R^2$  value of 0.6525 indicates a strong correlation between tariff reductions and employment growth, emphasising the role of trade liberalisation in driving labour market transformations.

**CONCLUSION**

AGOA has played a pivotal role in expanding Lesotho's textile and clothing industry, contributing 20% to GDP in 2020 and driving significant export growth, particularly to the U.S., since 2000. This growth has strengthened the sector's position within the manufacturing economy and generated substantial employment opportunities. However, disentangling AGOA's direct impact is complex, given overlapping factors such as the USA-China trade tensions, which may have indirectly benefited Lesotho’s textile industry, and the broader globalisation trends that have integrated economies like Lesotho into global markets.

Despite its successes, AGOA has fallen short of achieving its broader developmental goals. The sector remains dominated by foreign-owned firms, which exploit trade benefits but repatriate profits without significant reinvestment in Lesotho’s infrastructure or economy. Furthermore, while AGOA has spurred job creation, wage stagnation persists, raising concerns about the policy’s long-term sustainability (Fig. 10).

Although AGOA highlights the potential of trade policies to catalyse sector-specific growth, its impact on broader socio-economic development remains ambiguous. To enhance its effectiveness, stricter regulations on fabric sourcing, increased local ownership requirements, and measures to ensure wage growth and reinvestment in infrastructure are necessary. Such adjustments would help translate trade-driven economic gains into more equitable and sustainable benefits for Lesotho’s population.

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**Conflict of Interest**

The author declares that there is no conflict of interest regarding the publication of this manuscript. In addition, the ethical issues, including plagiarism, informed consent, misconduct, data fabrication and/ or falsification, double publication and/ or submission, and redundancy, have been completely observed by the author.

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