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SOUTH AFRICAN CORPORATE
INVESTMENT IN LESOTHO**

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by

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DEVELOPMENT BY INVITATION?

SOUTH AFRICAN CORPORATE INVESTMENT IN LESOTHO

Although Lesotho has come a long way since independence the prospects for its development look no more promising now than they did in 1966. While significant advances have been made in many areas Lesotho's basic problems remain, and its chronic dependence upon migrant labour remittances and Customs Union revenue (equivalent to 40 percent and 11 percent of GDP in 1981) has continued. In short, despite the escalation in aid commitments to Lesotho since the early 1970's¹ very little has happened to alter the fact that Lesotho cannot properly support the bulk of its people². Moreover, the rate at which job opportunities have been created in the domestic economy has failed even to keep pace with the increase in demand from those sectors of the population that do not have access to the migrant labour system.

Since the late 1970's this employment problem has worsened dramatically. Several reasons may be advanced for this. The global recession, for instance, has reduced demand for Lesotho's few exports, while the prolonged drought has seriously damaged the agricultural economy.³ In addition, the flow of foreign investment to Lesotho has slackened and several of its fledgling industries have declined. Moreover, the closure in 1982 of De Beer's diamond mine in Lets'eng-la-terai (sales from which accounted for over 50 percent of the country's export earnings excluding migrant labour) threw nearly 900

Basotho - almost 10 percent of the industrial labour force - out of work⁴. Similarly, Lesotho's tourist industry - also an important export earner - has been hard hit by competition from bantustan casinos and by the deterioration of political relations between Lesotho and South Africa⁵. But whilst these factors have had a significant impact upon the economy, Lesotho has clearly been most affected by changes within the migrant labour system.

Between 1965 and 1977, the number of Basotho migrants to the South African mines increased on average 6 percent every year⁶ but this has since fallen from a peak of 146 000 in 1977 to about 122 000 in 1982⁷, and the likeliest scenario is that numbers will continue to dwindle fairly rapidly. There are two main reasons for this. Most important is the policy of 'internalization' that the Chamber of Mines adopted in the mid 1970's to reduce its dependence on foreign labour⁸. Thus, the percentage of foreigners employed by the Chamber of Mines has fallen from 79,5 percent in 1973 to 45 percent in 1978⁹ and 40 percent in 1982¹⁰. A similar policy has been pursued by mineowners outside the Chamber. Hence, the proportion of Basotho migrants recruited by non-Chamber mines fell from 32,7 percent in 1976 to 15,7 percent in 1981¹¹.

The other factor is 'stabilisation' whereby the mines are attempting to professionalise the workforce to give a better return on training expenditures and to facilitate mechanisation. Accordingly, inducements are given to migrants to return to the mines on a fairly continuous basis thereby reducing opportunities for young men to enter the system. The impact of this policy is evident from the fact that only 5

percent of TEBA's (The Employment Bureau of Africa) Basotho recruits for the Chamber of Mines were novices in 1981¹², this figure dropping to 3 percent in 1982¹³ and 1 percent in 1983¹⁴. Similarly, the average length of contract increased from 11 months in 1977 to 17 months in 1981¹⁵. Simultaneously, the South African state has had considerable success with its efforts to close off opportunities for the employment of foreigners outside the mines. Hence, the number of non-mine Basotho migrants has fallen from about 38 000 in 1973 to 21 000 in 1981¹⁶. In addition, a determined drive has been made to eliminate the employment of 'illegals'. As a result, legal opportunities to find jobs outside the mines are virtually "non-existent except for those with skills in high demand and scarce supply within the Republic"¹⁷. In essence, then, the migrant labour system in Lesotho has become almost entirely dependent upon the Chamber of Mines and, as a result, much more vulnerable to 'internalisation', 'stabilisation' and other developments within the mining industry such as a move towards further mechanisation.

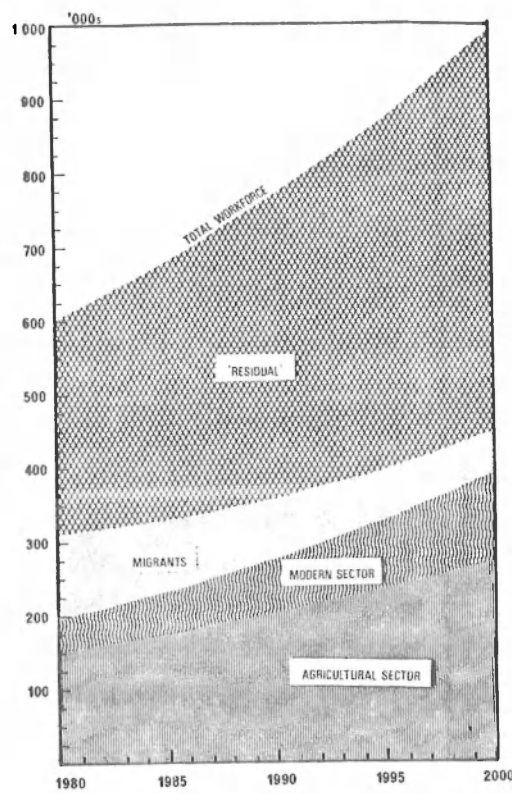
Thus, whilst it is possible that the number of TEBA migrants from Lesotho will stabilise at around 100 000 at least in the short-term¹⁸, it is perhaps most likely that it will continue to fall at between 3 to 5 percent per annum¹⁹ putting further pressure on Lesotho's paltry resources. So, although the role that labour migration has played in the gradual underdevelopment of Lesotho's agricultural base is widely acknowledged²⁰, the signs of its eventual collapse are being viewed with increasing alarm by the Lesotho government²¹ notwithstanding its periodic statements to the contrary²². For, unless alternative jobs

can be found within the domestic economy, Lesotho faces the prospect of a "decline in real incomes for the mass of the population, a sharp rise in rural poverty, and a substantial reduction in Government revenues resulting from a fall in imports (and a proportional negative trend in Customs Union receipts)"²³. Indeed, between 1977/78 and 1979/80, the proportion of Customs Union revenue generated by migrants and their families fell from 50,9 percent to 40,4 percent²⁴.

Lesotho's deepening employment crisis can be gauged from Figure 1 which is based on assumptions about the development of various economic activities including migration. The number of people of 'working age' is set at 600 000 in 1980²⁵ and is expected to grow at roughly 20 000 per annum²⁶. Full-time workers in the agricultural and modern sectors are fixed at 150 000²⁷ and 45 000²⁸ in 1980 with 'optimistic' linear growth rates of 3 percent and 5 percent²⁹ respectively. On the other hand, the number of migrants (all mines) is projected to decline at a linear rate of 3,5 percent per annum from 115 000 in 1980³⁰. On the basis of these projections, then, the number of 'residual' Basotho (informal sector, dependents, and unemployed) will rise from 290 000 in 1980 to 546 000 in 2000 at a linear rate of increase of 3,21 percent per annum³¹. As Gray, Robertson and Walton put it "The above picture has drastic implications. For decades the availability of migrant jobs has provided the outlet for Lesotho's growing male population, if at the expense of domestic economic development. The second half of the seventies marks a watershed - migrant employment is stagnant or falling while growth of the labour force continues apace..... The prospect for the 1980's is of an

unemployment and poverty problem of quite unprecedented proportions."³²

FIGURE 1: The Employment Crisis in Lesotho : Projections 1980 - 2000



	Mine Workforce	Migrants Agriculture	Modern Sector	'Residual' Workforce	% of Workforce	
1980	600 000	115 000	150 000	45 000	290 000	48,3
1985	676 500	96 905	173 891	57 433	348 271	51,5
1990	768 700	81 093	201 586	73 301	412 720	53,7
1995	868 800	67 861	233 694	93 553	473 692	54,5
2000	992 700	56 788	270 916	119 401	545 595	55,0

The challenge for the Lesotho government is to devise employment creation policies that will make most effective use of its limited resources. Rural development is perhaps the most obvious strategy but the government's commitment to agricultural expansion was clearly shaken by the failure in the mid 1970's of its initiatives in this direction³³. As a result, although many commentators insist that means can be found to overcome Lesotho's fragile ecology and maximise its limited agricultural potential³⁴, rural development policy in Lesotho is now a confused mish-mash of inadequately-funded 'top-down' and 'bottom-up' projects while the emphasis now seems to be upon the development of modern sector infrastructure and economic activities³⁵.

A principal component of this strategy is the attraction of foreign, particularly South African, manufacturing and commercial capital through the provision of incentives such as tax holidays and certain trade advantages. As the Lesotho National Development Corporation (LNDC) pointed out in 1982: "At present Lesotho cannot provide enough employment opportunities for all its people. The government decided some time ago that the best method of solving this problem was to encourage the development of private enterprise both local and foreign. Local enterprise will not, at this stage of development, be sufficient to provide the required number of jobs. Hence strong reliance is being placed on foreign investment"³⁶. Surprisingly, though, LNDC's efforts to develop Lesotho's tiny manufacturing sector (which accounted for only 3,3 percent of GDP in 1979/80) have received comparatively little attention in the literature to date. Whilst concern has been directed towards the way in which this programme contradicts the government's alleged commitment to reducing dependence

on South Africa³⁷, there has been no detailed analysis of its progress, problems and prospects, in general, or why it might be considered "inappropriate industrialization on adverse terms"³⁸ in particular. This paper, however, addresses itself specifically to these issues using the results of original survey data where appropriate. The following section provides a description of the LNDC programme and its progress in the 1980's. The focus then shifts towards an analysis of (a) the many problems that LNDC has encountered in attracting industry to Lesotho, and (b) the very limited impact that foreign corporate investment is having on the domestic economy. Some conclusions about the prospects of LNDC policy are summarised in the final section.

LNDC'S INDUSTRIAL DEVELOPMENT PROGRAMME

The Regional Context

Soon after independence, Lesotho embarked on an industrial development programme premised upon the infusion of foreign capital. Accordingly, a campaign was launched to encourage multinationals to invest in Lesotho. Initially, however, the policy proved conspicuously unsuccessful. A variety of economic reasons may be advanced for this, but equally significant was the opposition of powerful South African interests. Lesotho's forays into the industrial arena, insignificant and unsuccessful though they were, marked a profound shift in policy towards South Africa. Previously, a tacit agreement had existed

between the two countries whereby Lesotho had promised not to develop competitors to established South African concerns. But, given its relatively cheap and abundant labour, Lesotho (and Botswana and Swaziland) appeared ideally placed to capture multinational investment and flood the Republic with cheap imports. In short, then, the possible transformation of Lesotho from labour reserve to export platform was a scenario to be resisted by Pretoria and South African capital.³⁹ Thus, "the South African government has responded on various occasions to try to subvert, by any means, incipient industrial ventures in surrounding nations which might threaten the health of existing vested interests in the Republic."⁴⁰ For instance, an attempt to set up a Honda motor assembly plant in Lesotho was dropped in 1971 following pressure from Pretoria. Similarly, opposition from Pretoria obviated early proposals to establish television assembly concerns in both Swaziland and Lesotho in the early 1970's.⁴¹

Latterly, however, the South African state has become more tolerant of the efforts of its SACU (Southern African Customs Union) partners to initiate industrial expansion programmes. This was reflected most obviously in the new SACU formula negotiated in 1969 which granted several concessions to BLS, notably their right to protect their own infant industries for limited periods against South African competition.⁴² But whilst Pretoria's new approach may be understood in terms of its attempts to legitimise and lay a material foundation for its CONSAS (Constellation of Southern African States) strategy, and thereby replace a situation of political confrontation with economic collaboration⁴³, it also implies recognition of the fact that BLS

cannot as yet compete successfully for multinational investment with either the Republic or its bantustans. Thus, BLS tend to provide investment outlets for South African companies rather than viable alternative sites for multinationals seeking entry into the Southern African market.⁴⁴ Meanwhile, Pretoria has continued to exert pressure on multinationals to confine their operations to the Republic and to encourage both local and foreign investors to consider the advantages of its decentralisation incentives over those offered within BLS.

LNDC Policy

LNDC was created in 1967 in order to "initiate, promote and facilitate the development of manufacturing, processing and mining industries and commerce in a manner calculated to raise the level of income and employment in Lesotho".⁴⁵ In the period immediately following its establishment, LNDC undertook the initial roles of entrepreneur and investor. Originally it was LNDC's intention to invest its own capital in private enterprises commencing business in Lesotho, thereby retaining a measure of control at management level. However, LNDC no longer seeks "equity participation in new ventures unless it is absolutely necessary".⁴⁶ This is in recognition of the scarcity of financial and trained manpower resources available to the Corporation (and LNDC's inability to absorb heavy losses in risky ventures) and the tendency for foreign investors to prefer retaining equity investment within their own shareholding structures. LNDC will now invest equity only in certain circumstances, usually upon invitation (except in the case of 'strategic' industries), and normally

contributing no more than 25 percent of the total. Moreover, LNDC periodically sells off its holdings in established companies to make funds available for new investors. In 1981, for instance, seven companies were sold off to private interests.⁴⁷ Thus, the general level of local equity participation amongst LNDC-assisted companies has tended to decline as more and more companies pass through the system. In 1981, for example, LNDC held over 50 percent of equity capital in 52 percent of assisted companies and 0 percent of only 8 percent⁴⁸, whereas in 1984 comparable figures were 32 percent and 39 percent.⁴⁹

The declining importance of LNDC as an investor is also reflected in the 1978 decision to re-organise the Basotho Enterprise Development Corporation (BEDCO) - launched as a subsidiary of LNDC in 1975 to stimulate local businesses - as an autonomous parastatal. Simultaneously, this decision left LNDC free to devote its full energies to the task of attracting foreign investment to Lesotho. In this respect, LNDC has increasingly come to focus its attention upon South Africa since - as its former Managing Director Sam Montsi explained: "it is on our doorstep....and has many aggressive entrepreneurs who are eager to tackle the world markets. Many overseas companies are already operating in this market. It makes sense to approach the parent companies through their subsidiaries in the region. The economic and financial arrangements existing between Lesotho and South Africa make it worthwhile for South African companies to set up operations in Lesotho. LNDC has been very successful in this market - most companies which have responded positively to our call have come from this area."⁵⁰

There are three basic components to LNDC's promotion programme; the provision of a 'project service' to approved businesses, the extension of concessions vis-a-vis financial transfers and transactions, and advantages in terms of accessibility to markets outside Lesotho. Included in LNDC's incentives package - under the Pioneer Industries Encouragement Act of 1967 and subsequent amendments to it - are inter alia: a tax holiday up to six years (or tax allowances), training grants up to 75 percent for approved programmes, loans (up to 15 years at 12-13 percent annual interest); loan guarantees (from international 'Line of Credit' sources such as the World Bank); custom-built factories for rent at three industrial sites (Maseru, Maputsoe and Ha Thetsane); equity participation if required; industrial estate layout and maintenance; administrative assistance as regards permits, plans, labour recruitment and disputes, and project appraisal; and, the assignment of a supervisory project officer. In place of the tax holiday, investors may apply for other allowances, namely; 145 percent (first year), 75 percent (in first year; 50 percent over next 20 years) and 45 percent grants (in first year; 80 percent over next 4 years) towards machinery and equipment, factory buildings, and employees' dwellings respectively. In addition, companies may qualify for a 110 percent annual contribution to the cost of training, a 10 percent annual wage subsidy, and a 15 percent rebate of the actual costs of electricity, water and sewerage services on site and transportation within SACU of raw materials and finished products over a period up to five years⁵¹. Not every company will be granted 'Pioneer' status (which is administered by the Pioneer Industries Board rather than LNDC) but it appears that LNDC is prepared to

negotiate contracts specifically tailored to the needs of individual companies sometimes outside the normal portfolio of incentives. Moreover, LNDC will consider applications from non-manufacturing companies although only manufacturers, building contractors and hotel/casino concerns will be accorded 'Pioneer' status; indeed 39 percent of LNDC-assisted companies operating in early 1984 were commercial or service concerns⁵².

In terms of financial transfers and exchange control, Lesotho offers investors several advantages. Firstly, investors are free from exchange restrictions within the Rand Monetary Area (RMA) of which Lesotho is a member along with Swaziland and South Africa. Secondly, profits are freely transferable outside RMA except where local credit facilities exceed 25 percent of effective foreign capital invested at the time of transfer (in which cases restrictions may obtain). Thirdly, the re-transfer of the amount of equity capital originally brought in by an investor is allowed and unrestricted. Fourthly, as regards loans from outside RMA, permission to repay both principal and interest is given at the same time as approval of the inward loan transfer⁵³. Fifthly, firm guarantees are provided against nationalization, and investors are free from obligations to assign shares to LNDC or other local interests. Finally, Lesotho has secured double taxation agreements with South Africa, United Kingdom and West Germany.

But perhaps most important to potential investors is Lesotho's privileged access to a variety of local and international markets. As E.R. Sekhonyana, then Lesotho's Minister of Planning, Employment and Economic Affairs, remarked in 1982: "Our forte lies in the acceptability of our products internationally, in most cases on concessionary terms."⁵⁴

The single most important market accessible from Lesotho is South Africa and its neighbouring states. As a member of SACU, Lesotho-based industries qualify for duty-free entry into South Africa and other member countries, a factor that might interest multinationals hesitant to open or further operations in South Africa for political reasons, or relatively foot-loose South African companies interested in a 'free-lunch' of concessions. Lesotho is also a signatory to the various Yaoundé and Lomé trade conventions granting it the facility to export commodities to the EEC at zero or much reduced rates of duty⁵⁵. This concession applies both to goods wholly produced in Lesotho and to goods comprising an import content provided that they have been 'satisfactorily transformed'⁵⁶. Interestingly, a product need only have 25 percent 'value-added' in Lesotho to qualify for a Lesotho certificate of origin which means that goods produced in South Africa and 'finished-off' in Lesotho can be exported preferentially to EEC markets. Although the quantities qualifying for this treatment are limited by quotas, ceilings and maximum-country amounts, under the Lomé II (1983-85) agreements, the Generalised System of Preference (GSP) has been altered to introduce a system of differentiation in the allocation of benefits. This individualisation of preferential shares

has given less competitive exporters like Lesotho greater security in the European market.

The Commonwealth and European countries outside the EEC also operate GSP schemes in favour of Lesotho. Japan and certain Eastern European countries grant preferential entry at a variety of levels for listed agricultural products and most industrial products are accorded either duty-free entry or entry at 50 percent of the normal Most Favoured Nation (MFN) rate. In addition, the USA provides duty-free benefits for all listed items and lifts quota restrictions on certain products. Lesotho also advertises its accessibility to the black African market on concessionary terms as an inducement to foreign investors. Lesotho is a member of the Southern African Development Co-ordination Conference (SADCC)⁵⁷ and the Preferential Trade Area (PTA)⁵⁸, and has signed trade agreements with Zambia, Zimbabwe and Mozambique providing reciprocal MFN discounts for the signatories' exports. Ironically, then, South African owned or South African based companies, by locating a subsidiary in Lesotho, can take advantage of markets which have been organised with the specific intention of reducing the Republic's economic power in the region. In short, Lesotho offers investors privileged access to several lucrative overseas markets, and an opportunity to penetrate markets normally hostile to South African based producers. As Scott Moahloli, Director of INDC's New Industries Division, put it to an audience of foreign businessmen:

"Some of you may be seeking ways of entering the lucrative markets of the EEC but may be worried about import duties or possible rejection on political grounds. For similar reasons, you may be put off attempting to tackle the rapidly-growing markets in the black African countries. Non-South African companies among you may be wary of investing in the Republic because of possible political repercussions back home. If you think like this, may I suggest that you owe it to your company and to your shareholders to at least consider the possibility of solving all these problems by starting a manufacturing unit in Lesotho."⁵⁹

Progress

In the absence of comprehensive published data, the impact of LNDC policy upon the expansion of industrial and commercial employment in Lesotho is difficult to assess with exactitude⁶⁰. One estimate, though, is that by 1980 4 000 jobs have been created in the manufacturing sector as a direct result of LNDC's activities since its inception in 1967⁶¹. No comparable figure for the commercial sector is at hand but, given the sectoral breakdowns published in the 1980 and 1981 Annual Reports and in subsequent LNDC Newsletters one might expect it to be of a similar order. Of course, in relative terms this represents a quite considerable development of the rudimentary industrial base that existed in Lesotho at independence⁶². However, if consideration is given to the fact that Lesotho needs to create over 20 000 jobs per annum just to absorb new entrants to the labour market, LNDC's achievements appear more modest. Indeed, since 1978 - the year in which LNDC's current incentives package was launched -

LNDC has managed to initiate projects generating on average only 1 000 - 1 200 jobs per annum (see Table 1).

TABLE 1: Jobs Created and Projects Initiated by LNDC, 1979/80 - 1983/84

Financial year (March to March)	No. Projects	No. Jobs
1979/80 ¹	13	917
1980/81 ²	10	782
1981/82 ³	22	1 360
First 6 months 1983 ⁴	6	870
1983/84 ⁵	12	1 300

Sources:

1. LNDC, *Annual Report 1980*, Maseru, 1981, p.6.
2. LNDC, *Annual Report 1981*, Maseru, 1982, p.9.
3. LNDC, *Annual Report 1981*, Maseru, 1982, p.6; and LNDC, "Bright Industries Outlook 1982", *LNDC Newsletter*, No. 2, Maseru, 1982, p.4.
4. *LNDC Newsletter*, No. 3, Maseru, 1983, p.4. 1982/83 figure not available.
5. *LNDC Newsletter*, No. 1, Maseru, 1984, p.3.

Moreover, whilst LNDC's unprecedented success in 1981 led to expectations that the "encouraging upward trend" would continue and even accelerate, this has not been realised to date⁶³. Nonetheless LNDC remains optimistic since the disappointments of the past two

years have been blamed on general recessionary pressures rather than factors specific to Lesotho⁶⁴. Thus, business is expected to pick up once the regional economy recovers. Indeed, a recent LNDC survey of sixteen assisted manufacturing companies suggested that the majority (twelve) were trading profitably in late 1983 and early 1984 while the remainder expected to return to profitability shortly⁶⁵. However, whilst the recession has obviously had an important impact on the situation in Lesotho, it is also clear that insufficient attention has been directed towards internal factors that affect Lesotho's ability to compete for investment in the region. Yet, if Lesotho is to capitalise on the "very positive advances"⁶⁶ it has made to date, it is essential that these are awarded serious consideration.

PROBLEMS WITH THE LNDC PROGRAMME

Problems in Attracting Industry

The following is based largely upon surveys⁶⁷ of both manufacturing and non-manufacturing companies located in metropolitan South Africa (Durban, East London and Bloemfontein)⁶⁸ and in three 'peripheral' locations - Lesotho (Maseru and Maputsoe), Transkei (Butterworth and Umtata), and KwaZulu (Isithebe)⁶⁹. As regards the metropolitan survey, Tables 2, 3 and 4 are relevant to the concerns of this paper. Table 2, for example, reflects attitudes towards investing capital in Lesotho, Transkei and KwaZulu. From this it is clear that both Transkei and KwaZulu are considered more suitable for capital investment than Lesotho, only 12 of the sample of 129 companies expecting Lesotho to become more important as a site for capital investment, compared to 41

and 25 in the cases of Transkei and KwaZulu respectively. Tables 3 and 4 reflect the relative importance of what were considered to be the most significant advantages and disadvantages of locating capital in Lesotho, Transkei and KwaZulu, averaging the responses over the three samples. These data are complemented by Tables 5, 6, and 7 which provide analyses of (a) the reasons why South African and other foreign companies located in Lesotho, Transkei and KwaZulu, and (b) what they considered to be the major advantages and disadvantages of capital investment in these areas.

TABLE 2: Metropolitan Survey : Attitudes Towards Capital Investment in Lesotho, Transkei and KwaZulu

Centre	Lesotho (%) [*]	Transkei (%)	KwaZulu (%)
Durban	14,0	18,0	36,0
East London	2,0	49,0	4,1
Bloemfontein	13,3	30,0	16,7
All	9,3	31,8	19,0

* Figures refer to the percentage of each sample expecting a particular area to become more important as a location for capital investment.

TABLE 3: Metropolitan Survey : Advantages of Investing Capital in Lesotho, Transkei and KwaZulu.

Item	Lesotho	Transkei	KwaZulu
Composite index*			
Incentives	1,57	1,45	1,48
Cheap/plentiful labour	1,86	2,04	2,05
Improved Access to Local Market	1,99	2,13	1,98
Low Convention	1,20	N/A	N/A
Others	1,21	1,54	1,29

* Composite index is compiled by coding 'very important', 'marginally important' and 'not important' responses 3, 2 and 1 respectively and averaging over the number of responses.

TABLE 4: Metropolitan Survey : Disadvantages of Investing Capital in Lesotho, Transkei and KwaZulu.

Item	Lesotho	Transkei	KwaZulu
Composite index*			
Market not large enough to justify investment	2,66	2,74	2,64
Labour problems	2,16	2,03	2,10
Infrastructural problems	2,27	1,95	2,14
Bureaucratic problems	2,27	1,80	1,54
Political problems	2,45	1,80	1,63
Market instability and competition	2,12	1,92	2,17
Distance from suppliers and other markets	2,04	1,69	1,73
Others	1,28	1,28	1,32

* See Table 3.

These factors are discussed at more length below paying particular attention to their implications for the future prospects of industrial expansion in Lesotho and drawing comparisons, where appropriate, with the Transkei and KwaZulu results.

TABLE 5: Survey of Companies in Lesotho, Transkei and Kwazulu : Relative Importance of Factors Influencing Decisions to Invest Capital in These Areas.

Factor		Lesotho	Transkei	KwaZulu
		Composite index * and Rank		
Incentives	Manufacturing	2,42 (2)	2,61 (1)	2,80 (1)
	Non-manufacturing	1,25 (4)	1,38 (4)	-
Labour	Manufacturing	2,67 (1)	2,29 (2)	2,37 (2)
	Non-manufacturing	2,50 (2)	2,31 (2)	-
'Push' Factors	Manufacturing	1,58 (4)	1,36 (4)	1,90 (3)
	Non-manufacturing	1,00 (5=)	1,08 (5)	-
Access to Regional Market	Manufacturing	1,50 (5=)	1,50 (3)	1,73 (4)
	Non-manufacturing	1,50 (3)	1,85 (3)	-
Access to Local Market	Manufacturing	1,25 (7)	1,11 (5)	1,07 (6)
	Non-manufacturing	2,75 (1)	2,85 (1)	-
Lomé Convention	Manufacturing	1,75 (3)	N/A	N/A
	Non-manufacturing	1,00 (5=)		
Others	Manufacturing	1,50 (5=)	1,07 (6)	1,40 (5)
	Non-manufacturing	1,00 (5=)	1,08 (6)	-

* See Table 3.

**TABLE 6: Survey of Companies in Lesotho, Transkei and KwaZulu :
Advantages of Investing Capital**

Item		Lesotho	Transkei	KwaZulu
		Composite index *and Rank		
Incentives and Assistance	Manufacturing	2,92 (1=)	2,93 (1)	3,00 (1)
	Non-manufacturing	1,75 (3)	1,23 (4)	-
Cheap/plentiful labour	Manufacturing	2,92 (1=)	2,68 (2)	2,80 (2)
	Non-manufacturing	2,25 (2)	2,69 (2)	-
Improved Access to Local market	Manufacturing	2,00 (3=)	1,84 (3)	1,16 (4)
	Non-manufacturing	3,00 (1)	2,92 (1)	-
Lomé Convention	Manufacturing	2,00 (3=)	N/A	N/A
	Non-manufacturing	1,00 (5)		
Others	Manufacturing	1,40 (5)	1,42 (4)	1,45 (3)
	Non-manufacturing	1,57 (4)	1,50 (3)	-

* See Table 3.

(i) Incentives

The provision of incentives and other forms of assistance from LNDC is clearly a major determinant of decisions to invest in Lesotho (Table 5) for manufacturing companies. In addition, Table 6 indicates that LNDC assistance is also important for commercial, service and construction companies in comparison to similar companies in Transkei and KwaZulu where assistance of this type is not generally available. However, it is also clear that the basic package of incentives on offer in Lesotho is inferior to those obtaining at most 'deconcentration' sites and 'industrial development points' in both 'white' South Africa and the bantustans⁷⁰. Moreover, whilst the

decentralisation incentives in South Africa were made considerably more attractive in April 1982, LNDC has been using the same package since 1978. Thus, as a consultancy commissioned by LNDC has recently suggested, Lesotho's competitiveness as an investment site is steadily declining.⁷¹ Furthermore, it was clear from the metropolitan survey that industrialists are rather better informed about decentralisation incentives (which receive substantial coverage in the media) than

TABLE 7: Survey of Companies in Lesotho, Transkei and KwaZulu : Disadvantages of Investing Capital

Item		Lesotho Composite	Transkei index *and	KwaZulu Rank
Labour problems	Manufacturing	2,67 (2)	2,50 (1)	2,46 (1)
	Non-manufacturing	2,38 (4=)	2,46 (1=)	-
Infrastructural problems	Manufacturing	2,50 (3)	2,10 (2)	1,96 (4)
	Non-manufacturing	2,38 (4=)	2,09 (4)	-
Bureaucratic problems	Manufacturing	2,36 (4)	1,91 (5)	1,44 (6)
	Non-manufacturing	2,29 (6)	2,00 (6)	-
Political problems	Manufacturing	2,83 (1)	1,60 (7)	1,15 (8)
	Non-manufacturing	2,88 (1)	1,50 (8)	-
Local market problems	Manufacturing	1,80 (8)	1,20 (8)	1,20 (7)
	non-manufacturing	2,75 (2)	2,46 (1=)	-
Distance from supplies and SA markets	Manufacturing	2,33 (5)	2,00 (4)	1,68 (5)
	Non-manufacturing	2,13 (7)	2,08 (5)	-
Staffing problems	Manufacturing	2,20 (6)	2,04 (3)	2,07 (2)
	Non-manufacturing	2,50 (3)	2,10 (3)	-
Other	Manufacturing	2,17 (7)	1,85 (6)	2,05 (3)
	Non-manufacturing	2,00 (8)	1,55 (7)	-

* See Table 3.

those on offer in Lesotho, whilst some respondents mentioned difficulties in weighing up incentives which are not directly comparable such as Lesotho's tax holiday - its most significant concession⁷² - with decentralisation wage subsidies. So, as Prime Minister Chief Jonathan has pointed out: "The main worry is that we are competing with an economic giant which can offer better incentives to investors than we can ... competition is stiff."⁷³

(ii) Labour

From Tables 3, 5 and 6 it is evident that the availability of cheap and plentiful labour is considered to be an important advantage of a Lesotho location for both manufacturing and non-manufacturing companies, and therefore a major determinant of decisions to invest in Lesotho. At present, labour is cheap in Lesotho relative to metropolitan South Africa, wage rates being roughly comparable to those obtaining in the bantustans. Moreover, given that Lesotho's educational system is rather better developed than those in the bantustans, Basotho labour is relatively more literate and numerate, and hence less costly for investors to train. Thus, our respondents tended to be more critical of the productivity of Zulu and Xhosa workers than Basotho⁷⁴ (see Table 7 for instance).

Nevertheless, labour was seen to be problematic in other ways (see Tables 4 and 7). For example, many respondents complained about high levels of turnover⁷⁵ and absenteeism and the difficulties they had encountered in recruiting skilled workers, firing employees⁷⁶, and

resisting official pressure to appoint (what they considered to be) redundant staff. However, the majority of companies seemed particularly concerned about the possible impact of union organisation on the price of labour since, in sharp contrast to the bantustans, Basotho unions have a remarkably long history and have made very significant advances in recent years.⁷⁷

In particular, the late 1970s and early 1980s saw the formation of several new unions which organised principally in the industries established under the auspices of LNDC and, heavily influenced by the development of independent trade unions in South Africa, "sought to contest wages and conditions in ventures which were themselves often under South African ownership and control".⁷⁸ Meanwhile, the Lesotho Federation of Trade Unions (LFTU - formerly the Basutoland Federation of Labour; BFL) - the most powerful of the two trade union federations in Lesotho - has successfully consolidated its position in a wide range of sectors. Thus, whilst LNDC advises potential investors that "most employees do not belong to trade unions"⁷⁹, Roger Southall calculates that possibly 20 000 out of a 25 000-strong 'internal working class' are members of unions.⁸⁰

Moreover, although the development of a more militant union movement in Lesotho would appear prejudicial to its industrial strategy, the government has been unable or unwilling to engage in the kind of repressive tactics that are employed in a place like Ciskei.⁸¹ Certainly, in its dealings with the unions the state had consistently moved with the interests of foreign capital clearly in mind. In reviewing minimum wage levels, for example, the Wages Advisory Board

takes into account "increases in the cost of living as well as the need to create more jobs for Basotho in Lesotho"(emphasis added).⁸² Similarly, in his address to a LNDC workshop on labour relations in March 1982, E. R. Sekhonyana explained that the government wanted to establish "good labour relations "for without such relations, companies that have established themselves in Lesotho might feel unwanted or at worst threatened and unprotected".⁸³ Yet, whilst the government has continued to harass certain unions and their leaders⁸⁴, this has had less impact than it might have anticipated on the growth of unions outside the Lesotho Council of Workers (LCW) which enjoys state support. For example, an attempt by the government in 1974 to declare LCW - now led by Simon Jonathan, a close relative of the Prime Minister - the only legitimate labour representative was forestalled by employers in recognition of the fact that the majority of workers were members of unions affiliated to BFL. As a result, BFL was incorporated into the bargaining process and accepted by both the Labour Department and the Employers' association. Similarly, although the government has consistently supported moves to draw all unions into one federation dominated by LCW, the formation of the 'Lesotho Congress of Free Trade Unions' in June 1984 was effected without concessions to state control of union activities on the part of LFTU and the independent member unions.⁸⁵

Nevertheless, one should stress that, given the nature of Lesotho's labour-surplus economy and the government's efforts to entice foreign companies to the country, Basotho unions are obliged to operate within a very restrictive set of constraints. As Southall comments :

"Lesotho's trade unions remain subject to all the disadvantages which accrue from operating within a labour reserve. First they labour under the aegis of a state which - whilst serving the immediate interests of the core petty bourgeoisie - is dominated, directly and indirectly, by South African and foreign capital. Consequently, the industrial relations framework within which they seek to further workers' interests promotes the objectives of capital. In effect, the laws and practices which regulate trade unions in Lesotho (e.g. state determination of how unions may constitute their own federations, *de facto* control by government over whether unions may register, a collective bargaining convention whereby firms do not deal with unions until they represent more than half the number of workers they employ, and so on) disorganise the workforce in a manner which does not apply to capital. Second, and fundamentally, trade unions have to operate within a context where an enormous reserve army of labour is virtually camped outside each set of factory gates. Clearly, there are very severe limits to what unions can do."⁸⁶

Thus, whilst it is not true that "strikes are unknown"⁸⁷ in Lesotho, fourteen of the sixteen companies included LND's recent survey had experienced no strikes in an aggregate existence of 55 years.⁸⁸ Moreover, it is obvious that both the Wages Advisory Board and the Labour Department are rather more sensitive to the interests of foreign investors than those of workers. For example, employers have expressed strong opposition to survey evidence submitted recently to the Wages Advisory Board that recommends very substantial increases in minimum wage rates. In particular, one of the employers who participated in our investigation (and who occupies positions in both the Employers' association and the Wages Advisory Board) warned that he and many other investors would have to 'reconsider their association with Lesotho' if increases in the minimum wage rates exceeded 50 percent (i.e. R60 per month to R90 per month in the lowest category). Clearly, given the fact that foreign investors usually have very little capital actually tied down in Lesotho and are repatriating profits annually, these threats have to be taken seriously. The

government of Lesotho, therefore, faces the difficult task of finding a compromise that will satisfy both the employers and the unions.

However, it is also clear to employers that the union movement in Lesotho is developing rapidly along with its potential ability to mobilise workers and sustain labour action. So, whereas few companies in our survey had actually been affected by strikes to date, most respondents anticipated that labour disputes would escalate in the short term. It is inevitable, then, that Lesotho's competitiveness relative to the bantustans, where unions are uncommon if not outlawed altogether, will deteriorate. In fact, several respondents argued that Basotho labour was already 'overpriced' and that 'one or two big strikes' would 'scare-off investors for good'.

(iii) The Local Market

Access to the local market is also an important determinant of decisions to invest capital in Lesotho (Tables 3, 5 and 6) particularly for commercial, service and construction companies. It is apparent, though, that potential investors (Table 3) are rather more interested in the public sector market which they consider to be more lucrative and reliable. Certainly, the rapid increases in the value of international aid disbursed to Lesotho (on remarkably generous terms) over the past few years⁸⁹ has attracted the attention of companies that stand to profit from government contracts. Moreover, whilst several of our respondents commented unfavourably on what they saw as bureaucratic corruption in Lesotho, it was agreed that

corruption provided ample opportunities for 'making a fast buck'.⁹⁰

On the other hand, the Lesotho market was also considered to be disadvantageous for capital investment in several respects (Tables 4 and 7), although companies in Maseru and Maputsoe selling over 50 percent of their output to local customers tended to be more confident than others. The major reasons for a negative evaluation of the domestic market were (a) an expectation that private purchasing power will develop very slowly given the uncertain future of migrant labour, and (b) the fear that international donors will intervene to constrain the present level of expenditure on the part of the Lesotho government. The general feeling, then, appeared to be that the Lesotho market is essentially artificial, buttressed by external inflows of capital in the form of international aid and migrant remittances. Thus, as one respondent put it : "I just don't see this becoming a sophisticated market. There are good opportunities in the public sector but I can't see us selling much to the locals."

Furthermore, whilst several of our respondents suggested that the Lesotho market was still 'wide open' in several sectors, others felt that competition was already severe from both locally-based and South African concerns⁹¹. In addition, many companies were critical of poor infrastructural links within the Lesotho market. Most complaints were directed at the transportation network but poor communications by post, telephone and telex were also mentioned regularly. The general feeling, therefore, appeared to be that Lesotho's full market potential would not be realised until it had been 'opened-up' by further development of its communications networks. Finally, a significant number of companies in both the metropolitan and Lesotho

surveys complained about bureaucratic muddies and the fact that competitive tenders for public sector contracts tended to be turned down in favour of 'inflated' bids from favoured companies. Thus, one respondent commented that "unless you take care of the right people, you have little chance of securing a contract". Interestingly, Lesotho was seen to be considerably more problematic in this respect than either KwaZulu and Transkei. Similarly, a significantly large proportion of our respondents mentioned problems related to the non-payment or late payment of bills on the part of Basotho clients; to cite the remark of one industrialist: "Not even bank-guaranteed cheques are safe"⁹².

(1v) The L^om^e Convention

There is little doubt that the L^om^e Convention is an extremely important determinant of decisions to invest in Lesotho for companies intending to export a large proportion of output overseas. One Maseru company, for example, which manufactures beachwear, sells nearly 100 percent of its stock to the U.S.A. Similarly, Lesotho Umbrella, based in Matutsoe, markets virtually its entire output in Europe, mostly to its West German distributor.⁹³ However, the evidence suggests that for the majority of companies the L^om^e Convention is not a significant factor at present (Tables 3, 5 and 6). In our sample of twenty companies in Maseru and Maputsoe only five were exporting overseas - an average 23 percent by value. Moreover, whilst L^om^e was "the only reason we decided to come to Lesotho" for one company selling 90 percent of its output overseas, it was considered only "useful" by

another company marketing roughly 30 percent overseas as part of a package of attractions of which cheap labour appeared to be the most important. Similarly, the LNDC survey found that "the concessional trade advantages available to Lesotho were mentioned by a number of firms; however, the small proportion of clients outside the Republic of South Africa would seem to indicate that there is considerable potential for an expansion of exports".⁹⁴

But whereas this potential obviously exists and is likely to be exploited rather more in the future, it was clear from our interviews with companies in the metropolitan areas that, if attempts to entice South African investors are to be continued, LNDC would do well to advertise the Lomé factor more vigorously since the majority of respondents appeared to have very little knowledge and understanding of it. Indeed, a surprisingly large number of our informants claimed not to have heard of the Convention at all. From the point of view of LNDC, then, this is an extremely unsatisfactory situation, particularly given the fact that concessional trade advantages is the one incentive that its bantustan competitors cannot match.

(v) Political and Bureaucratic Problems

Tables 4 and 7 indicate that Lesotho is considered significantly more problematic than either Transkei or KwaZulu in terms of political and bureaucratic problems. As regards the political situation, whereas Transkei and KwaZulu were seen as relatively 'safe' for the purposes of investment, there was a marked lack of confidence in Lesotho among companies that participated in our surveys. Concern was expressed at

three levels. In the first place it was argued that a deterioration of relations between Maseru and Pretoria has a serious effect on business through the imposition of border restrictions, as in the 1976 'Transkeian emergency', for example, and again in May, June and July, 1983⁹⁵. Furthermore, it was suggested that Lesotho might subsequently retaliate against South African investors by nationalising their businesses or by increasing corporate taxation. Certainly it is true that Lesotho has assumed an increasingly belligerent posture in respect of South Africa and its apartheid policies since the early 1970's.⁹⁶ And, whilst one may argue that the Lesotho government's present policy has been dictated more by its need to suppress internal criticism of its early collaborative position and by the local politics of international aid than a selfless desire to support the liberation struggle⁹⁷, it has been received with intense irritation in Pretoria nevertheless. The South African raid on Maseru in December 1982 bears testimony to Pretoria's concern. Moreover, Pretoria is clearly becoming increasingly frustrated by Maseru's dogged refusal to sign a non-aggression pact on the lines of the Nkomati Accord⁹⁸ and by its consistent claims of South African complicity in the 'terrorist' activities of the Lesotho Liberation Army (LLA)⁹⁹. At present, then, whilst the situation has improved considerably over the first half of 1983, there seems little prospect that the current tension will diminish in the short term.

Secondly, a number of respondents argued that the internal conflict between the ruling Basotho National Party (BNP) and the Basutoland Congress Party (BCP) and its military wing, the LLA, would discourage

investors from locating in Lesotho. However, there seemed more concern about the occasional act of violence - particularly bomb explosions¹⁰⁰ - than the collapse of the Jonathan government. Nevertheless, there was some speculation that a BCP government - commonly conceived as more 'radical' than the present BNP - would be less sympathetic to South African corporate investment. Finally, several of our informants were alarmed by what they saw as a 'leftward' drift in Lesotho. The government's support for the ANC and the recent establishment of diplomatic relations with inter alia the Soviet Union, Cuba and China were considered indicative of this drift. In addition, Jonathan's expulsion of the (capitalist) Taiwanese diplomatic community in May 1983 and their replacement by communist Chinese was regarded as especially significant¹⁰¹, particularly given the fact that Taiwanese investors are currently displaying an unprecedented level of interest in the region.¹⁰² In short, although none of our respondents had been directly affected by 'political' problems other than border delays, Lesotho was definitely thought to be somewhat risky in this respect, and certainly more so than its competitors.

As regards bureaucratic problems, the major complaints appeared to be inefficiency, corruption, higher corporate taxation than in South Africa (i.e. where companies are not receiving tax concessions), the difficulty of obtaining work permits for expatriate staff, regulations obliging employers to hire Basotho in preference to expatriates, and the alleged difficulty of firing Basotho employees. Many companies also complained about apparent incompetence in the handling of business matters by the government and LNDC. "They seem to want us here", commented one respondent, "but they make things difficult for

us at every turn." The general impression, therefore, was that Lesotho is considered a much more 'alien' business environment even by companies in the metropolitan surveys which had no first-hand experience of the situation. This is clearly the result of the very negative press that Lesotho receives inside South Africa.

(vi) Other Problems

Many companies found aspects of the Lesotho infrastructure particularly problematic. Significantly, the factor scores for this item were much higher in Lesotho than in either KwaZulu or Transkei (see Tables 4 and 7). Poor communications (particularly road transport, border delays and telephones) and inefficient utilities¹⁰³ were the most common complaints. A comparable number of respondents also found transport costs to be a problem given the position of Lesotho with respect to their suppliers and major markets within South Africa.¹⁰⁴ Again, the factor scores on this item suggest that Lesotho is considered more problematic in this respect than either Transkei or KwaZulu, although this may be at least partly due to the railage subsidization that is available to manufacturing companies in bantustan locations (see Tables 4 and 7). Finally a significant number of respondents expressed concern about the difficulties they had encountered in persuading competent white managerial and professional staff to accept positions in Lesotho along with problems of personal and work-place security¹⁰⁵. Surprisingly, Lesotho once again scored more highly on this item than either Transkei or KwaZulu (see Table 7) despite the fact that, residentially and socially, Maseru - where

most foreign investors have located - is probably superior to any location inside these areas.¹⁰⁶ It was evident, then, that Maseru's low popularity had more to do with the perceived hostility of the people and government and internal political instability than with its relative attractiveness as a residence.

In summary, LNDC faces very serious problems in its efforts to entice foreign investors to Lesotho. More importantly perhaps, on the evidence of our surveys, these problems are considered to be less severe in at least two of its competitors, KwaZulu and Transkei. Admittedly, some of these 'problems' are more perceptual than real. Nevertheless, it is by no means clear what the government of Lesotho can do about the very negative image that the country has acquired among South Africans in general and investors in particular. Furthermore, Lesotho's problems are very real in the realms of labour and incentives and in this context it is clearly essential for LNDC to publicise its trade advantages (if the present industrial policy is to be continued)- about which relatively little seems to be known in South Africa - rather more energetically than hitherto.

Impact upon the Economy

The 'developmental' impact of foreign corporate investment is contingent upon its 'multiplier' effects within the domestic economy. In the case of Lesotho, the evidence strongly suggests that this multiplier is presently of limited dimensions, and tends to 'drift' out of the local economy largely to the metropolitan centres of South

Africa. The reasons for this may be discussed under the following headings:

(i) 'Forward Linkages'

By generating a demand for manufactured inputs and services, foreign corporate investment should stimulate activity 'downstream' within the domestic economy. However, our survey suggests that the proportions of plant and service inputs being drawn locally are negligible. Only 0,6 percent (by value) of plant inputs were acquired locally; 1,4 percent from the local regional centre (Bloemfontein) 79 percent from the rest of South Africa, and 19 percent from overseas. Equivalent figures for service inputs were 4,4 percent, 20,4 percent, 75,2 percent and 0 percent. Moreover, where agglomeration economies have developed they appear to have encouraged foreign companies to develop linkages not with local concerns but with each other. But, whilst there is some limited evidence of inter-linkage between foreign companies, this did not seem to be common practice, nor did it appear to have been an important factor in their decisions to invest capital in Lesotho.

(ii) 'Backward Linkages'

Similarly, our survey showed that the proportion of raw materials drawn from Lesotho is also extremely low. On average, only 6,2 percent (by value) of all imported materials were local, while 8,0 percent were shipped from Bloemfontein, 69,1 percent from the rest of South Africa, and 16,7 percent from overseas¹⁰⁷. The major reasons for this were that supplies could not be obtained, or obtained cheaply

(because of infrastructural constraints) from Lesotho, or that foreign suppliers were considered more reliable. Several companies do draw the bulk of their raw materials locally - Loti Brick and the recently expanded Basotho Fruit and Vegetable Cannery at Mazenod are two examples¹⁰⁸ - but these are exceptional. Even the tapestry and skin products industries import most mohair and hides from South Africa rather than Lesotho, although the latter is expected to make more use of local hides once Lesotho's National Abattoir begins operations¹⁰⁹.

(iii) The Import Bill

INDC has frequently suggested that foreign corporate investment should reduce Lesotho's propensity to import from South Africa by providing the domestic market with cheaper products tailored to meet local tastes and the purchasing power of the Basotho consumer. Certainly, the domestic market is important to the majority of foreign companies currently trading in Lesotho (although, in general, it is considered too small and unstable to interest most investors). In our survey, 100 percent of sales (by value) made by construction, service and commercial companies were to the local market; the equivalent figure for manufacturing companies was 45 percent¹¹⁰. However, it is by no means clear whether this benefits local consumers in any material sense since there is no clear evidence that import substitutes are significantly cheaper or more suited to the domestic market; indeed, there is little reason for them to be so given that Lesotho does not subscribe to protectionist policies (except to underwrite local

monopolies)¹¹¹ and that producers import the bulk of their supplies and services from South Africa.

(iv) Local Commercial Development

One of the characteristics of Lesotho is its inability to retain capital within the local economy. It is estimated that 80 percent of every Rand earned or remitted to Lesotho 'leaks' in one way or another to South Africa¹¹². This is perhaps most evident in the spectacular growth of towns such as Ficksburg and Matatiele which border onto Lesotho. Ficksburg, for example, was described as a 'boom town' in 1978¹¹³. Moreover, it is clear from our survey of 42 businesses trading there in 1983 that the 'boom' has continued since 45 percent of the businesses had been established since 1975 and 40 percent had definite plans to expand in the next couple of years. This was largely the result of a sharp rise in the volume and value of business from Lesotho; in our survey, an average of 58 percent of turnover was accounted for by Lesotho-based consumers - the equivalent of R41 million of business in 1982. Thus, LNDC has remarked that "since...most of the income that was generated in Lesotho or flowed into the country found its way to the South African border towns immediately it reached the consumers, Lesotho lost to South Africa the economic impact created by the multiplier effect of this money"¹¹⁴.

In response, LNDC has vigorously promoted the development of commercial concerns on Basotho soil. However, the largest and most successful of these in both the retailing and wholesaling sectors

- such as Metro and O K Bazaars - have been South African owned. Metro (Lesotho), for example, has been particularly successful in Lesotho. Commencing business with one Cash and Carry in Maseru, Metro now has six outlets in the major population centres, increasing sales and profits before tax on average 57 percent p.a. and 101 percent p.a. respectively¹¹⁵. Thus, one might argue that LNDC is succeeding only in replacing a system of 'direct' with 'indirect' leakage, and is actually assisting South African businesses to penetrate the Lesotho market. On the other hand, though, the programme does succeed in creating jobs locally and providing the infrastructure for an expansion of retail activities. The government claims, for example, that whilst the original decision to allow Metro to trade in Lesotho was opposed by local commercial interests on the grounds that Metro would monopolise the market¹¹⁶, the establishment of wholesalers has generated far more locally-run retail activity than hitherto¹¹⁷. In addition, LNDC argues that Lesotho-based concerns - whether local or foreign - will be more inclined to draw products from the domestic economy. O K Bazaars, for example, buys a share of its fruit and vegetables from the wholesaler Sunripe Fruits (Lesotho) which, in turn, imports supplies from the Mazenod Cannery and local farmers¹¹⁸. At the moment, though, such linkages are uncommon.

(v) Local Ownership and Profit Sharing

Whilst LNDC does contribute equity capital to assist foreign corporate investment, it is not in a position to invest in more than a few companies at a time. Moreover, given that LNDC has suffered losses on certain investments and that it also needs to retain a capital pool to

assist new investors, LNDC has found it necessary periodically to sell off some holdings to private interests. Thus, as noted above, the level of 'local' ownership of assisted companies is declining steadily. So, while LNDC will continue to seek equity participation in certain companies (for 'strategic' reasons and where the level of investment is substantial), most will be majority or fully owned by foreign capitals. In addition, given LNDC's shortage of manpower at the Board level, de facto foreign control is likely to obtain even where LNDC is the majority shareholder. Clearly, this has important implications for profit sharing since private companies are under no obligation to remit any share of profits or dividends to their hosts beyond company taxation.

Furthermore, there seems little prospect that LNDC will be able to extract significant concessions on profit-sharing from foreign companies in the future since these would further diminish Lesotho's competitiveness relative to 'growth point' locations in the bantustans. Indeed, several companies in our survey were quite hostile to local shareholding, preferring to have, as one respondent put it, "as little to do with them as possible". In sum, therefore, profit-sharing presently contributes very little to the Lesotho economy and the 'internal' multiplier generated by foreign investment.

A final point which merits discussion at this juncture is the question of company turnover. Will companies be more inclined to disinvest once their concessions have expired, or will inertial factors persuade them to continue operations at lower profits? Since the major incentive

runs for six years, it is perhaps too early to speculate on the likely response. Clearly, though, LNDC is keen to minimise company turnover and the attendant disruption. In the first place, difficulties may be encountered in replacing companies that decide to disinvest; secondly, any turnover raises administrative and advertising costs, the level of LNDC capital investment (particularly investment into infrastructural alterations to the specifications of the immigrating companies), and of course the concessionary bill paid by LNDC. In our own survey, we found our informants reluctant to comment on corporate policy in this respect. However, the majority - particularly those with relatively little capital invested in Lesotho - could not visualise their companies continuing to function without incentives. But perhaps more disturbing was the suggestion that companies would migrate to other concessionary locations in the region once their incentives had expired in Lesotho. Indeed, we do have evidence that a couple of South African companies have already left Lesotho for more favourable locations within the bantustans. It is possible, therefore, that 'assisted' companies will be able to re-negotiate their contracts once their incentives have expired (as in the bantustans); in fact, this may be necessary to keep certain businesses afloat which find themselves unable to compete effectively without assistance. The state's burden is also likely to be increased by fraudulent claims on the part of 'assisted' companies (non-existent machinery and training schemes, for example) and by 'lame ducks' - uncompetitive businesses locating in Lesotho primarily to make quick profits on the basis of concessions. In such instances, LNDC will have to decide whether to bale out the company and keep it viable at an increased cost to itself or to withdraw, waste its investment and lose the jobs.

(vi) The Labour Market

Examining the statements and publications issued by LNDC and the Lesotho government, it is clear that the major benefit of foreign corporate investment is considered to be the expansion of employment opportunities. It is also suggested that foreign companies will generate a multiplier effect within the labour market by upgrading skills to artisan level and by giving Basotho the opportunity to practice professionally (in accountancy and business administration for example), gain experience and eventually move into managerial positions, or set up their own businesses. But, besides the fact that the rate of job creation is far too slow to make more than a tiny imprint upon Lesotho's unemployment problem, several aspects of the labour situation are problematic.

In the first place, whilst the majority of 'assisted' companies in Lesotho are 'small' or 'medium' sized¹¹⁹, there is little evidence of bias towards the more labour-intensive sectors (such as textiles and clothing). Nor is there any indication that 'assisted' companies are more labour-intensive than their metropolitan competitors, or that they have become more labour-intensive as a result of re-location to Lesotho. There is, of course, little reason to expect Lesotho to become a haven for labour-intensive industries given that LNDC offers no significant labour incentives. Indeed, several companies that participated in our investigation pointed out that (to borrow the words of one respondent) "labour-intensive industries will not consider Lesotho before the homelands". Furthermore, it is not clear

exactly how companies that are labour-intensive relative to their competitors are expected to compete successfully in the long run except by suppressing demands for higher wages. Hence, Lesotho is unlikely to attract labour-intensive industries unless (a) the state is prepared to provide wage subsidies, and (b) employers can successfully resist pressure for higher wages.

Secondly, virtually all the jobs created for Basotho in our investigation were unskilled¹²⁰. Very few of the companies employed locals in a professional or managerial capacity, nor did they appear to have any intention of doing so¹²¹, despite the fact that most managers claimed to have experienced difficulties in prising competent whites away from their jobs in the cities even where incentives were available to cover the relocation and housing of 'key personnel'. Furthermore, within companies which were partly owned by LNDC - where some pressure is applied to place locals in managerial positions - there was still a tendency to reserve sensitive positions for expatriates. Of course, the lack of skilled local labour militates against the employment of Basotho in certain positions - and some companies have initiated training schemes for artisans and administrative staff (where such schemes are subsidised) to help resolve the situation¹²² - but most seem prejudiced towards automation and de-skilled assembly-line production and the maintenance of an expatriate presence.

Thirdly, labour is extremely poorly remunerated in Lesotho. LNDC's recent survey, for instance, revealed that 60 percent of the workforce

was earning between R60 and R100 per month, whilst only 9 percent made more than R150¹²³. There are several reasons for this. In the first place, wages have historically been determined not by negotiation between employers and unions but by the Wages Advisory Board whose only function is to establish minimum rates for various occupations (although actual wages are supposed to be indexed to training, experience and service). Thus, in early 1984 the minimum monthly wage for light unskilled labour was only R61 whilst that for a machine operator was R98. Moreover, whilst the Board apparently "takes into account increases in the cost of living"¹²⁴ and has recently observed that inflation has "seriously eroded the workers' purchasing power"¹²⁵ there had in fact been no increase in the rates between April 1981 and April 1984. And, as noted above, there is considerable resistance among employers to recent proposals that recommend a radical revision of minimum wage policy. So, while unions have made considerable advances recently in mobilising Basotho labour, they have yet to make a significant impact upon employers. Secondly, the supply of labour far exceeds its demand and unions are acutely conscious that employers can very easily find replacements for recalcitrant workers. Some companies have even instituted a day by day casual labour system to accommodate busy periods without having to pay overtime or sign on workers at contracted rates. Finally, competition with other peripheral investment sites in Southern Africa has tended to bid down the price of labour in Lesotho. Indeed, several of our respondents remarked that Basotho labour was already 'over-priced' relative to some of the bantustans.

In short, since Lesotho's ability to attract foreign investment depends heavily on the provision of incentives and the availability of cheap labour, it must continue to subsidise investment and suppress demands for wage increases. Moreover, the 'internal multiplier' of corporate investment is further diminished by (a) the scarcity of linkages between foreign companies and the domestic economy, (b) legislation which permits foreign companies to repatriate profits, and (c) the continuing tendency for Basotho consumer expenditure to 'leak' to South Africa. Furthermore, whilst the Lesotho government could act in a variety of ways to enhance the impact of foreign investment on the local economy¹²⁶, its freedom to do so is constrained by recognition of the fact that such actions would adversely affect Lesotho's competitiveness as an investment site relative to 'growth points' in the bantustans.

PROSPECTS

Against these problems one should list some positive aspects of the industrial development programme. For one thing, LNDC has been able to secure financial support from a variety of international donors to help sustain its development efforts¹²⁷. Secondly, the industrial and commercial base is growing steadily and this should have some kind of 'demonstration' effect upon potential investors. However, on balance, one must seriously question the efficacy of the programme. Firstly, foreign investment is having only a very slight effect on the unemployment figures in Lesotho, presently absorbing only 5 to 6 percent of new entrants to the labour market per year. Secondly, Lesotho's ability to attract foreign investment is limited by several

factors most of which appear less problematic in at least two of its competitors, KwaZulu and Transkei. In particular, Lesotho cannot compete effectively with the incentive packages on offer in the bantustans, while the labour situation is likely to become equally problematic in the future. Thirdly, the 'internal multiplier' that is generated by foreign investment is presently of very limited value with most of the benefits draining back to the metropolitan centres of South Africa. Moreover, whilst the Lesotho government could intervene to force up the value of the 'internal multiplier' it is well aware that any interference in this direction would further diminish Lesotho's competitiveness as an investment site.

A further problem could be Lesotho's rather cynical and opportunistic approach to the concessional trade advantages conferred by its western allies. The purpose of these concessions is clearly not to assist South Africa or South African-based companies. Yet, in response to the declining competitiveness of its other incentives, the Lesotho government has come to place greater emphasis on the "politically dubious strategy"¹²⁰ of advertising its trade advantages to South African concerns. For whilst this is obviously an economically sensible strategy given that the majority of foreign companies in Lesotho are South African¹²⁰, and whilst international donors might acknowledge that South African intervention in Lesotho's development drive is inevitable and perhaps beneficial in the short-term, it is questionable whether they would be prepared to continue offering concessions for the benefit of South African capital. Moreover, there have been and will be further abuses of Lomé whereby Lesotho

'certificates of origin' are approved on products that are manufactured in South Africa and then shipped to Lesotho (acquiring '25 percent value-added' in the process) for onward transmission to markets overseas. Finally, LNDC's policy as regards South African investment clearly contradicts the government's statements on the issue of dependence¹³⁰ and this may further prejudice its relations with some donors and regional groupings such as SADC and PTA.

One could conclude, then, that Lesotho's industrial development policy is ineffectual, misguided and politically dangerous. Yet, it is not immediately obvious what the alternatives might be. Certainly rural development efforts need to be continued and intensified but it is clear from the failure of earlier programmes that Lesotho must face the fact that "the rural resource base simply does not have the capacity to support the rural population at current or acceptable consumption levels from agricultural activities alone"¹³¹. Thus, the need to create jobs outside agriculture cannot be denied. However, whilst the expansion of the modern sector under LNDC direction clearly makes an important contribution towards this objective, the cost-effectiveness of this kind of 'enclave' development is doubtful. It is possible to argue, then, that more attention should be directed towards the development of small businesses such as those established by BEDCO. Being locally-run, geared to local markets and suppliers and located in both urban and rural areas, these should have a far greater and more lasting impact upon the domestic economy¹³². On the other hand, the attraction of foreign investment may be an easier and quicker way to create jobs in the short-term and the government may therefore find this to be the more politically expedient strategy.

But if, as argued here, Lesotho's attractiveness to investors is already declining and likely to decline further relative to its major competitors, it is important that the challenge of devising alternative strategies is confronted now rather than later.

NOTES

1. See, Singh, A., "Foreign Aid for Structural Change in Lesotho", in Fransman, M. (ed.), *Industry and Accumulation in Africa*, Heineman, London, 1982, pp. 301-323; and, Wellings, P.A., "Aid to the Southern African Periphery: the Case of Lesotho", in *Applied Geography*, Vol. 2, No. 4, October 1982, Butterworths, Guildford, pp. 267-290.
2. See the following studies on Lesotho; Ward, M., "Economic Independence for Lesotho?", in *Journal of Modern African Studies*, Vol. 5, No. 3, September 1967, Cambridge University Press, London, pp. 355-368; Wallman, S., "Conditions of Non-Development in Lesotho", in *Journal of Development Studies*, Vol. 8, No. 2, January 1972, Frank Cass, London, pp. 251-261; Winai-Ström, G., *Development and Dependence in Lesotho*, Scandinavian Institute of African Studies, Uppsala, 1978; Cobbe, J.H., "Growth and Change in Lesotho", in *South African Journal of Economics*, Vol. 46, No. 2, June 1978, Braamfontein, pp. 135-153; Murray, C., "From Granary to Labour Reserve", in *South African Labour Bulletin*, Vol. 6, No. 4, November 1980, SALB, Braamfontein, pp. 3-20; Cobbe, J.H., "The Changing Nature of Dependence: Economic Problems in Lesotho", in *Journal of Modern African Studies*, Vol. 21, No. 2, June 1983, Cambridge University Press, London, pp. 293-310.
3. See "Premier declares state of national food emergency", in *Lesotho Weekly* (Maseru), 11th March, 1983; and "Effects of drought are being felt in the country", in *Lesotho Weekly* (Maseru), 27th May, 1983.
4. Legum, C. (Ed.), *Africa Contemporary Record*, 1982-83, London, pp. B645-46; also see, "De Beers' Lesotho mine to close", in *Rand Daily Mail* (Johannesburg), 15th May, 1983.
5. On the former point see, Wellings, P.A. and J.S. Crush, "Tourism and Dependency in Southern Africa: the Prospects and Planning of Tourism in Lesotho", in *Applied Geography*, Vol. 3, No. 3, July 1983, Butterworths, Guildford, pp. 205-223; and, Crush, J.S. and P.A. Wellings, "The Southern African Pleasure Periphery, 1966-83", in *Journal of Modern African Studies*, Vol. 21, No. 4, December 1983, Cambridge University Press, London, pp. 673-698. On the latter point see, "Join hands and save our tourist industry", in *Lesotho Weekly* (Maseru), 26th November, 1982; and, "Lesotho losing tourists again", in *Sunday Times* (Johannesburg), 23rd January, 1983.
6. Gray, J., Robertson, N. and M. Walton, "Lesotho: A Strategy for Survival after the Golden Seventies", in *South African Labour Bulletin*, op. cit., pp. 62-78 (see p. 65).
7. Cobbe, 1983, op. cit., p. 299.

8. For accounts of this policy, see; Massey, D., "Class Struggle and Migrant Labour in South African Gold Mines", in *Canadian Journal of African Studies*, Vol. 17, No. 3, Winter 1983, CAAS, Ottawa, pp. 429-448 (esp. p. 431); and, Taylor, J., "Changing Patterns of Labour Supply to the South African Gold Mines", in *Tijdschrift voor Economische en Sociale Geografie*, Vol. 73, No. 4, December 1982, KNAG, Amsterdam, pp. 213-220.
9. Taylor, op. cit., p. 217.
10. Cobbe, 1983, op. cit., p. 300.
11. Ibid., p. 299.
12. Ibid. In addition, no novices were recruited for non-Chamber mines.
13. Eckert, J.B., "The Employment Challenge Facing Lesotho", in *Development Studies Southern Africa*, Vol. 5, No. 2, January 1983, Benso, Pretoria, pp. 248-261 (see p. 252).
14. Cobbe, J.H., *Consequences for Lesotho of Changing South African Labour Demand*, Paper delivered to 26th Annual Meeting of the African Studies Association, Boston, 10th December 1983 (hereafter referred to as Cobbe, 1983b), p. 2.
15. Cobbe, 1983, op. cit., p. 300. Colin Murray also notes that the number of men going forward to the mines who had completed 24 months in their previous contracts increased from 7 percent in 1977 to 32 percent in May 1980; see his "Stabilization' and Unemployment", in *South African Labour Bulletin*, op. cit., pp. 58-61 (p. 59).
16. Cobbe, 1983, op. cit., p. 299.
17. Cobbe, 1983b, op. cit., p. 4.
18. Ibid., pp. 6-11. Cobbe argues that the Chamber of Mines may elect to retain a 'quota' of around 100 000 Basotho miners to (a) preserve the diversity of labour sources, (b) hold on to skilled and experienced miners, and because (c) Basotho have the reputation of being good workers. Similarly, the South African state recognises that the migrant labour system is one means by which it can pressure Lesotho politically. Also see, Cobbe, J.H., "Emigration and Development in Southern Africa with Special Reference to Lesotho", in *International Migration Review*, Vol. 16, No. 4, Winter 1982, Center for Migration Studies, New York, pp. 837-868.
19. Cobbe, 1983b, op. cit., p. 11. Figures of 3,5 percent p.a. and 3,0 percent p.a. are cited by Eckert, op. cit., p. 253 and Gray, Robertson and Walton, op. cit., p.67.

20. In this respect, the key studies are; Cobbe, 1982, op. cit.; Murray, C., *Families Divided: The Impact of Migrant Labour on Lesotho*, Cambridge University Press, London, 1981; and, Leys, R., "Lesotho: Non-Development or Underdevelopment? Towards an Analysis of the Political Economy of the Labour Reserve", in Shaw, T.M. and K.A. Heard (eds.), *The Politics of Africa: Dependence and Development*, Longman, London, 1979, pp. 95-130.
21. See, for example, "Calls for jobs offensive in Lesotho", *Rand Daily Mail* (Johannesburg), 6th December, 1983; and "Lesotho is faced with high unemployment - Minister", *Lesotho Weekly* (Maseru), 10th June, 1983.
22. For instance, see "Bulk of our working force will be employed in the country in 10 years", *Lesotho Weekly* (Maseru), 22nd January, 1982; and, "Dependence on foreign labour market to be reversed - Employment Minister", *Lesotho Weekly* (Maseru), 19th March, 1982.
23. Southall, R.J., "Trade unions and the internal working class in Lesotho", in *South African Labour Bulletin*, Vol. 10, No.3, December 1984, SALB, Braamfontein, pp.85-113 (p.91).
24. Kingdom of Lesotho, *Third Five Year Development Plan*, Government Printer, Maseru, 1980, p. 63.
25. Cobbe, 1983b, op. cit., p. 11.
26. According to the World Bank/UNDP team that investigated the problem in early 1982 the labour force will expand by an average 20 520 per year between 1975 and 2000.
27. Eckert, op. cit., p. 257.
28. Cobbe, 1983b, op. cit., p. 11.
29. Eckert, op. cit., pp. 257 and 254.
30. *Ibid.*, p. 253. In addition, we assume that 'illegal' and non-mine migration will cease by 1985.
31. Similarly, the World Bank/UNDP team estimated that Lesotho would have to provide jobs for 500 000 more workers by the end of the century; see, "Half a million jobs a must by 2000", *Lesotho Weekly* (Maseru), 5th March, 1982.
32. Gray, Robertson and Walton, op. cit., p. 68.
33. See, Turner, S.D., *Sesotho Farming: The Condition and Prospects of Agriculture in the Lowlands and Foothills of Lesotho*, Unpublished Ph.D Thesis, University of London, 1978.
34. See, for example, Cobbe, J.H., "Rural Development in Lesotho", in *Journal of Contemporary African Studies*, Vol. 2, No. 1, October 1982, Africa Institute of South Africa, Pretoria, pp. 113-140 (esp. pp. 130-140) - hereafter referred to as Cobbe, 1982b;

- Cobbe, 1983, op. cit., pp. 308-309; Eckert, op. cit., pp. 256-259; Gray, Robertson and Walton, op. cit., pp. 74-75; Schmitz, G. (ed.), **Lesotho: Environment and Management Vol. 1**, National University of Lesotho, Roma, 1984; Sterkenburg, J., "Agricultural Commercialization in Africa South of the Sahara: The Cases of Lesotho and Swaziland", in **Development and Change**, Vol. 11, No. 4, October 1980, Institute of Social Studies, The Hague, pp. 573-606; Turner, op. cit.; and "Farmers can get high yields if they listen to expert advice - Minister", **Lesotho Weekly** (Maseru), 10th June, 1983.
35. See Wellings, 1982, op. cit., p. 278ff for a discussion of this shift in policy.
 36. LNDC, **Investment Guide to Lesotho 1981**, Maseru, 1982, p. 2. Also see, Gurr, R., "Invest in Lesotho - where the growing is good", in Gurr, R. (ed.), **Transnational corporations and developing countries**, LNDC, Maseru, pp. 254-264.
 37. For example, see Bardill, J., "Review of Winai-Ström, op. cit.", in **South African Labour Bulletin**, op. cit., pp. 79-90 (pp. 85-88).
 38. Gray, Robertson and Walton, op. cit., p. 72. But, for an exploratory analysis of this question, see Wellings, P.A., "Modern sector development and South African investment: a viable strategy for Lesotho?", in **Journal of African Studies**, Vol. 12, Heldref Publishers, Washington, (forthcoming, 1985).
 39. Selwyn, P., **Industries in the Southern African Periphery**, Boulder, Westview Press, p. 114 refers to South Africa's fear of 'mini-Hong Kongs' on its doorstep.
 40. Rogerson, C.M., "Industrialization in the Shadows of Apartheid: A World-Systems Analysis", in Hamilton, F.E.I. and G.J.R. Linge (eds.), **Spatial Analysis, Industry and the Industrial Environment**, John Wiley, New York, 1981, pp. 395-421 (p. 411). See also, Selwyn, op. cit., p. 119.
 41. Rogerson, C.M., "Corporate Strategy, State Power and Compromise: Television Manufacture in Southern Africa", in **South African Geographical Journal**, Vol. 60, No. 2, September 1978, SAGS, Braamfontein, pp. 89-102.
 42. Maasdorp, G., "The Southern African Customs Union - An Assessment", in **Journal of Contemporary African Studies**, Vol. 2, No. 1, October 1982, Africa Institute of South Africa, Pretoria, pp. 81-112 (see pp. 90-95).
 43. This is argued by *inter alia*: Hill, C.R., "Regional Co-operation in Southern Africa", in **African Affairs**, Vol. 82, No. 327, April 1983, Oxford University Press, Oxford, pp. 215-240 (see p. 217); and Price, R.M., "Pretoria's Southern African Strategy", in **African Affairs**, Vol. 83, No. 330, January 1984, Oxford University Press, Oxford, pp. 11-32 (see pp. 14-21).

44. See, Rogerson, C.M., "Multinational Corporations in Southern Africa: A Spatial Perspective", in Taylor, M.J. and N. Thrift (eds.), *The Geography of Multinationals*, Croom Helm, London, 1982, pp. 179-220.
45. Moahloli, S., *LNDC's Role in Investment*, Paper presented to Manpower and Management Foundation of Southern Africa Conference "Spotlight on Lesotho", Johannesburg, November 1982, p. 2.
46. LNDC., *LNDC Annual Report 1981*, Maseru, 1982, p.6.
47. *Ibid.*, p. 7.
48. Calculated from *Ibid.*, pp. 12-13.
49. Personal communication from Mr. Bakoena Moahloli, Director of LNDC's New Industries Division, 13th April 1984.
50. LNDC, *Annual Report 1981*, op. cit., p. 6.
51. LNDC, *Investment Guide*, op. cit., pp. 2-7.
52. Personal communication from Mr. Moahloli, op. cit.
53. LNDC, *Investment Guide*, op. cit., p. 9.
54. LNDC, *Annual Report 1981*, op. cit., p. 5.
55. For a discussion of Lomé II see, Rajana, C., "The Lomé Convention: An Evaluation of EEC Economic Assistance to the ACP States", in *Journal of Modern African Studies*, Vol. 20, No. 2, June 1982, Cambridge University Press, London, pp. 179-220.
56. Theoretically this is effected if the tariff heading of the finished product is different from the heading before 'transformation'.
57. Lesotho joined SADCC in 1980. The other eight members are Angola, Botswana, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.
58. Lesotho joined the PTA in April 1982. This body includes the nine countries in SADCC plus Comoros, Djibouti, Ethiopia, Kenya, Mauritius, Somalia, Uganda, Malagasy Republic and the Seychelles.
59. Moahloli, op. cit., pp. 8-9.
60. For instance, LNDC's Annual Reports for 1982 and 1983 had not been published by the time of writing (August 1983).
61. Legum, C. (ed.), *African Contemporary Record*, 1980-81, London, p. B685. In addition, manufacturing capital had increased from R1m in 1967 to R5m in 1979.

62. Prime Minister Jonathan has claimed that, by January 1982, LNDC had been responsible for a five-fold increase in Lesotho's commercial and industrial output; see, LNDC, "Lesotho's Commercial and Industrial Policy Outlined by PM", LNDC Newsletter, No. 2, Maseru, 1982, p. 1. Also see, "LNDC has given birth to 50 subsidiaries in 15 years", Lesotho Weekly (Maseru), 13th August, 1982.
63. LNDC, "Bright Industrial Outlook 1982", LNDC Newsletter, No. 2, Maseru, 1982, p. 4.
64. See, LNDC, LNDC Newsletter, No. 1, Maseru, 1984, p. 3.
65. Kirk, R.W., Industry in Lesotho, Mimeo, LNDC, Maseru, 1984, pp. 7-8.
66. Ibid., p. 8.
67. Undertaken as part of the HSRC Investigation into Intergroup Relations; see Wellings, P.A., Core-periphery Relations in the Southern African Space-Economy with Specific Reference to their Influence on Intergroup Relations, University of Natal, Development Studies Unit, 1984.
68. In Durban N = 50 (manufacturing = 16; services and construction = 13; commercial = 21). In East London N = 49 (manufacturing = 9; services and construction = 13; commercial = 27). In Bloemfontein N = 30 (manufacturing = 8; services and construction = 8; commercial = 14).
69. In Lesotho N = 20 (Maseru = 12; Maputsoe = 8; manufacturing = 12; commercial = 8). In Transkei N = 41 (Umtata = 16; Butterworth = 25; manufacturing = 28; services and construction = 7; commercial = 6). In KwaZulu N = 30 (all manufacturing).
70. Butterworth, for instance, can offer investors inter alia, a rebate of 95 percent of the wage bill over seven years subject to a maximum amount of R110 per worker per month; an 80 percent rental subsidy on land and buildings over ten years; a 50 percent loan towards the cost of machinery, equipment and working capital redeemable over fifteen years together with a subsidy on the interest payable over ten years; a 60 percent railage rebate and housing subsidy for the life of a company; plus training grants and a relocation allowance. For full details see, Department of Foreign Affairs and Information, Manual Issued by the Governments of the Republics of South Africa, Transkei, Bophuthatswana, Venda and Ciskei on the Implementation of the New Regional Development Incentives Introduced on the 1st April 1982, Pretoria, 1982.
71. See, LNDC, "New Incentives Explored", LNDC Newsletter, No. 2, Maseru, 1982, p. 11.

72. This is confirmed by Kirk, op. cit., p. 7. The provision of loans appears to be the second most important incentive given the present underdeveloped condition of the capital market within Lesotho.
73. *Natal Mercury* (Durban), 17th October, 1980. For some discussion of this point see Matsebula, M.S., "Tax Incentives in Botswana, Lesotho and Swaziland: A Case for Policy Harmonization and Regearing", in *Journal of Southern African Affairs*, Vol. 4, No. 1, January 1979, University of Maryland, pp. 45-54.
74. The companies interviewed by LNDC found productivity in Lesotho to be roughly equivalent to South Africa; see Kirk, op. cit., p.4.
75. However, 14 of the 16 companies interviewed by INDC claimed that they had experienced no significant difficulties in recruiting and maintaining an adequate labour force. Indeed, labour turnover appeared to be 'almost uniformly low'; see Kirk, Ibid.
76. Present policy is that a worker is hired subject to a three month probationary period and may be dismissed only after three written warnings.
77. For details see Southall, op. cit.
78. Ibid., p. 99.
79. LNDC, *Investment Guide*, op. cit., p. 8.
80. Southall, op. cit., p. 107.
81. For the Ciskeian situation see, Green, P. and A. Hirsch, "The Ciskei-Political Economy of Control", in *South African Labour Bulletin*, Vol. 7, Nos. 4/5, 1982, SALB, Braamfontein, pp. 65-85. One determinant of the Lesotho government's policy towards unions is its sensitivity to international opinion given that Basotho unions now have strong contacts with bodies such as the ILO.
82. LNDC, *Investment Guide*, op. cit., p. 8.
83. LNDC, "LNDC's New Labour Relations Institute", *LNDC Newsletter*, No. 2, Maseru, 1982, p. 3.
84. For instance, the government amended its 'essential services' labour legislation to include banks and thereby declare bank strikes illegal after several strikes at Standard Bank and Barclay's in 1982; see "Strikes of Banks are 'Illegal'", *The Friend* (Bloemfontein), 17th July, 1982. The government appears to be equally intolerant of labour disputes within the Civil Service. For instance, see "Government to take action against disrespectful civil servants", *Lesotho Weekly* (Maseru), 9th April, 1982.
85. Southall, op. cit., pp. 101-106.

86. Ibid., pp. 107-108. Similarly, Bardill, op. cit., p. 87 argues that "in contemporary Lesotho it is quite clear that the dominant class is that of foreign capital, and particularly South African." For further discussion of the influence that foreign capital has on government policy within Lesotho see, Winai-Strom, G., "The Influence of Multinational Corporations on Lesotho's Politics and Economics", in *African Review*, Vol. 5, Winter 1975, pp 473-497.
87. INDC, *Investment Guide*, op. cit., p. 8. Recent examples of labour disputes include the following; a strike at Maluti Sheepskin Products in October 1981 (see "Application against workers dismissed", *Lesotho Weekly* (Maseru), 19th February, 1982); a dispute at OK Bazaars in June 1983 (see "OK fires ten employees: labour officials intervene", *Lesotho Weekly* (Maseru), 24th June, 1983); and three strikes at two Maseru banks by the 200-strong Lesotho Union of Bank Employees in February, March and July 1982 (see, "Lesotho banks brought to a halt", "Banks strike goes on", and "Two Lesotho banks closed", in *Rand Daily Mail* (Johannesburg), 23rd February and 25th March, 1982 respectively, and *The Friend* (Bloemfontein), 9th July, 1982).
88. Kirk, op. cit., p. 4.
89. See, Wellings, 1982, op. cit., pp. 267-275.
90. Wellings, P.A., "Making a Fast Buck: Capital Leakage and the Public Accounts of Lesotho", in *African Affairs*, Vol. 82, No. 329, October 1983, Oxford University Press, Oxford, pp. 495-507. Also see, "Lesotho scandal: Gross mismanagement of funds", *Finance Week* (Johannesburg), 22nd July, 1982; and, "Embezzlement of public funds 'rife in Lesotho'", *Rand Daily Mail* (Johannesburg), 29th July, 1982.
91. The mohair tapestry/handicraft industry has been particularly hard hit by competition from bantustan producers; for example, see "Company threatened with closure, weavers likely to lose jobs", *Lesotho Weekly* (Maseru), 27th August, 1982.
92. Also see, "Many Lesotho cheque frauds", *The Friend* (Bloemfontein), 22nd September, 1983.
93. Other examples are Gallant Clothing and the recently established French/South African company Parachutes (Lesotho).
94. Kirk, op. cit., p. 7.
95. See, "Border searches causing headache", *Rand Daily Mail* (Johannesburg), 1st June, 1983; and, "South Africa gets tough again on Lesotho border controls", *Natal Mercury* (Durban), 21st July, 1983.

96. Hirschmann, D., "Changes in Lesotho's Policy towards South Africa", in *African Affairs*, Vol. 78, No. 311, April 1979, Oxford University Press, Oxford, pp. 177-196.
97. Wellings, P.A., "The 'Relative Autonomy' of the Basotho State: Internal and External Determinants of Lesotho's Political Economy", in *Political Geography Quarterly*, Vol. 4, No. 2, Butterworths, Guildford (forthcoming, April 1985).
98. "Lesotho: still too far apart to sign accord", *Natal Witness* (Pietermaritzburg), 15th August, 1984.
99. Wellings, "The 'Relative Autonomy'", op. cit. discusses the situation up to late 1983. For more recent details, see "Lesotho attacks South Africa for backing rebels", *Rand Daily Mail* (Johannesburg), 21st June, 1984.
100. For the most part, LLA attacks have been directed at military, police, government and 'strategic' targets but bomb explosions at the Hilton Hotel in late 1981 and OK Bazaars and another supermarket in Maseru in November 1983 have been attributed to the LLA; see, "21 Injured in Maseru bomb blast", *Pretoria News* (Pretoria), 19th November, 1983.
101. For details, see *Africa Research Bulletin*, Vol. 20, No. 5, June 1983, Exeter, p. 6851. LNDC's promotional campaign was extended to the Far East in 1981 and, following Chief Jonathan's visit to Taiwan in November 1982, the level of interaction between the two countries increased significantly with Taiwan supplying loans, food, technical assistance in agriculture and private investment in manufacturing and construction.
102. According to the Decentralisation Board, Taiwanese investors accounted for 55 percent of 'foreign' jobs in approved applications between 1st April 1982 and 31st March 1983; Decentralisation Board, *Report on the Activities of the Board for the Period 1 April 1982 to 31 March 1983*, Department of Industries, Commerce and tourism, Pretoria, 1983, p. 19.
103. However, this did not emerge as a problem in the LNDC survey; Kirk, op. cit., p. 5.
104. This observation is supported by the LNDC survey; Kirk, *Ibid*.
105. For several observations on this problem see "Robbed at traffic lights in Maseru", *The Friend* (Bloemfontein), 22nd September, 1983; and "Terrified of burglars?", *Lesotho Weekly* (Maseru), 5th February, 1982. The security situation is improving, however, with the establishment of several companies specialising in this area. Indeed, LNDC assisted the Johannesburg company Securitas to open Security (Lesotho) in Maseru in 1983; see, LNDC, "Industrial and commercial security service", *LNDC Newsletter*, No. 1, Maseru, 1983, p. 9.

106. Maseru does have a housing shortage but this is probably less severe than in Isithebe, Umtata or Butterworth, for example.
107. Comparable results were obtained by LNDC in its survey. 13 out of 16 companies imported the bulk of their supplies from South Africa; Kirk, op. cit., p. 5.
108. LNDC, "LNDC develops commercial farming for canning industry and export markets", *LNDC Newsletter*, No. 3, Maseru, 1983, p. 3.
109. Maluti Skin Products and PAL Products are two such companies; see, LNDC, "New Lesotho Handbag Factory", *LNDC Newsletter*, No. 4, Maseru, 1983, pp. 2-3.
110. Similar results were obtained by LNDC; Kirk, op. cit., p. 6.
111. One such monopoly is in poultry products; see "Minister turns down applications from foreign interests", *Lesotho Weekly* (Maseru), 3rd September, 1982.
112. Wellings, 1982, op. cit., p. 285.
113. *Sunday Times* (Johannesburg), 3rd December, 1978.
114. LNDC, "Lesotho's Commercial and Industrial Policy outlined by PM", *LNDC Newsletter*, No. 2, Maseru, 1982, p. 1.
115. Lipchin, H., *Metro Cash and Carry: our investment experience in Lesotho*, Paper presented to "Spotlight on Lesotho" conference, op. cit., pp. 4-6. Also see, "Metro Lesotho's turnover increases by 36 percent", *Lesotho Daily* (Maseru), 29th January, 1983.
116. "Trade Minister puts record straight", *Lesotho Weekly* (Maseru), 12th November, 1982.
117. "Government's drive to curb money erosion", *Lesotho Weekly* (Maseru), 22nd January, 1982.
118. LNDC, "Lesotho's Commercial and Industrial Policy", op. cit.
119. Kirk, op. cit., p. 1.
120. This observation is supported by Kirk, *Ibid.*, p. 4.
121. A notable exception appears to be Metro (Lesotho); see, Lipchin, op. cit., and LNDC, "Mosotho woman appointed to managerial position in Metro Group", *LNDC Newsletter*, No. 1, Maseru, 1983, p. 8.
122. For example, see LNDC, "Investment in good secretaries essential for effective management", *LNDC Newsletter*, *Ibid.*, pp. 2-3.
123. Kirk, op. cit., p. 4.

124. LNDC, *Investment Guide*, op. cit., p. 8. Minimum wages may be compared against an estimated household poverty level of R100 per month in 1982; Cobbe, 1982b, op. cit., p. 125.
125. Southall, op. cit., p. 91.
126. The ILO, for example, has suggested that the Lesotho government should endeavour to attract only the 'right kind' of investor - small, labour-intensive, prepared to share profits, geared to the local market, making use of local inputs and so on; see *Lesotho Weekly* (Maseru), 19th November, 1982.
127. LNDC receives most assistance from the World Bank (training, loans, equity capital, factory and site development), the African Development Bank (loans, equity and training), EEC (factories and sites), CDC (equity capital) and UK (factory and site preparation).
128. Southall, op. cit., p. 7.
129. A list of 61 companies appears in LNDC, *Annual Report 1981*, op. cit., pp. 12-13, and LNDC *Investment Guide*, op. cit. Of the 36 that were foreign or part-foreign owned, South African interests were represented in 27 (75 percent).
130. For example, see "Lesotho talks on shaking off 'SA yoke'", *Sunday Times* (Johannesburg), 31st October, 1982, and, the Lesotho government's statements at the Maseru SADC conference in January 1983 - for instance, "We have to identify our problems and solve them ourselves", *Lesotho Daily* (Maseru), 26th January, 1983.
131. Cobbe, 1982b, op. cit., p. 140.
132. *Ibid.*, p. 138.

DEVELOPMENT STUDIES UNIT

The Development Studies Unit is a multi-disciplinary unit within the Centre for Applied Social Sciences at the University of Natal in Durban. The Development Studies Unit was established at the beginning of 1982 with the purpose of providing a focus for research into the problems of developing areas, with a view to assisting the University to play a meaningful role in the upgrading of the quality of life in the poorer areas surrounding it.

As well as undertaking research in many areas of South Africa, the Unit offers a post-graduate Masters programme in development studies.

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