

FDI, Governance and Development
The case of Lesotho
Emerging from the periphery

By

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ABSTRACT

When the developing countries have relaxed their FDI regimes, the latent potential of FDI to spawn economic development remains in the type of governance that a particular country has adopted. It is not about the regime type (democracy or autocracy) but whether the type of governance has capabilities of improving human abilities. The type of governance with requisite strategies to accelerate development beyond the rhetoric of the so called good governance is essential for building a strong developmental state.

This study investigates the relationship between FDI and governance and its impact on economic development in Lesotho. Central to the debate, the study brings the importance of a role of the state in accelerating development. It compares both the market enhancing governance (good governance) and growth enhancing governance in order to distinguish a difference in the contribution that FDI makes towards economic development of Lesotho. It finally compares Lesotho with its peers in the sub-Saharan Africa which are at the same as Lesotho in relation to income size as classified by the World Bank.

Declaration

I, Refiloe Litjobo, declare that this research report is my own unaided work. It is submitted for a partial fulfillment of Masters' Degree in International Relation at Wits University. It has never been submitted to any other University before. Tables and figures that appear on the text have been accurately and consistently labeled and titled.

Sign_____

Date_____

Refiloe Litjobo

Dedication

This work is dedicated to my family: my wife, 'Makananelo and my daughter Kananelo. I wish to thank them for the invaluable support that remained unwavering in the face of forces of life that fiercely almost disorientated my endeavors. Without their support, I would not have taken courage to enroll for MA studies given the circumstances that enclosed my life at that time. Kea leboha ho menahane.

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List of acronyms

ACP	African, Caribbean and Pacific
AGOA	Africa Growth Opportunity Act
APRM	African Peer Review Mechanism
ATC	Agreement on Textile Clothing
CBL	Central Bank of Lesotho
CMA	Common Monetary Area
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
Gj	Giga joules
HDI	Human Development Index
IDA	Industrial Development Approach
IDC	Industrial Development Centre
IMF	International Monetary Fund
ITT	Industrial Trade Technology
JBCC	Joint Bilateral Commission for Cooperation
JPCC	Joint Permanent Commission for Cooperation
KW/H	Kilowatt per hour
LDCs	Least Developed Countries
LHWP	Lesotho Highlands Water Project
M&A	Mergers and Acquisition
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MFA	Multi-Fiber Agreement
MNE	Multi-National Enterprise
MOUs	Memorandum of Understanding
N/As	None Available
NDCs	Now Developed Countries

NSS	National Security Services
ODA	Official development Assistance
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
RSA	Republic of South Africa
SAB	South African Brewery
SACU	South African Customs Union
SDI	Spatial Development Initiatives
SMMEs	Small, Medium and Micro Enterprises
UN	United Nations
USA	United States of America
USAID	United States Agency for International Development
WTO	World Trade Organization

INTRODUCTION

Research Question

Lesotho has remarkably done well during the past couple of years in relation to the attraction of foreign direct investment. It is one of the biggest textile exporters to the US market. As a result of that, it is one of the most successful countries in attracting FDI in the sub-Saharan African countries and its FDI inflow is mainly in textile and mining sectors. The reclassification of Lesotho as a lower middle income (from low middle income) in 2007 by the World Bank classification attests to the fact that Lesotho's capital formation has significantly expanded.

The swelling FDI spurt inflow into Lesotho has named Lesotho as a 'beacon' of hope and development in a continent all regularly branded unpromising¹. However the declining human development index² is not commensurate to the increasing levels of inward resources base. The initiatives that government took to unlock development so far do not seem to be of help for the Basotho people who are in unspeakable poverty.

Good governance has been hoped to be a vehicle to economic development in the developing countries and Lesotho is one of the sub-Saharan African countries that have embraced the ethos of good governance. "Policy makers and academics agree that good governance matters for economic development"³.

It is however evident that the situation in Lesotho is out of sync. Lesotho is still stagnant in its status as the least developed country and as still being described as one of the poorest countries by recent cross-sectional researches that have been undertaken in Lesotho. For instance Deborah Wason et al and Lesotho Household Survey indicated that

¹ Lesotho National Development (LNDC).

http://www.foreignpolicy.com/images/Lesotho_supplement_finalforweb.pdf

² UNDP, HDI Report 2007

³ Kauffman, World Bank Governance Indicators, A Decade of Measuring The Quality of Governance, 2007, Washington DC

in 2003 56.6% of the total population of Lesotho (1.8 million) was still in sheer poverty and the Gini coefficient was hovering at 0.52⁴.

The study is intended to explore the interaction of FDI, governance and economic development in Lesotho. FDI has been endorsed both by international organizations such as IMF and World Bank and developed countries as an economic development catalyst. But it's potential of closing resources' gap and thus accelerating development in the host economy can fail. The study argues that FDI performance in Lesotho has a limited impact on acceleration of development because of the moderation effected on its potential by governance type and capabilities. The study put the two forms of governance: market enhancing governance (good governance) and growth enhancing governance and show the pitfalls of the exclusive market enhancing governance. It is assumed that FDI and governance type and capabilities act in concert to accelerate development. The study deems FDI as independent variable, governance type and capabilities as moderating variable and development as a dependent variable.

Rational of the study

A preponderance of literature in a study of FDI, especially UNCTAD⁵, has warned that FDI has both costs and advantages for the recipient economy. The World Bank also has also indicated benefits of good governance on the hosting economy⁶. Therefore it is important to asses the interactive role of FDI inflow, governance on economic development in Lesotho. There is also a paucity of literature on issues linking FDI, governance and the economic development in Lesotho. Therefore, the study will assist in stimulating the debate regarding the captioned theme in Lesotho.

As the objective of the study is to disentangle and explore the impact of FDI inflow on Lesotho's economic development the study will enable the policy makers to have the empirical analysis of how FDI can be effective in changing the lives of the people for the better. The study will also inform both the policy makers and researchers existing debate of FDI, governance and economic development.

⁴ Lesotho Household Budget Survey, November, 2006 Ministry of finance and Development Planning

⁵UNCTAD 2003, foreign direct investment and performance requirements: new evidence from selected countries, UN New York, Geneva.

⁶ Ibid,p:1

Existing research on the question

Other studies on the theme of FDI, governance and economic development calls for a necessity of review of the good governance that is internationally supported by both the World Bank and developed countries. The virtues of good governance had been highly extolled by the international organizations and numerous claims were made that it is one of the precondition for economic development take off⁷. The approach of these studies disputed the neo-liberal orthodoxy in relation to state intervention in the economic affairs and shed some doubts on appropriateness of good governance for acceleration of development in developing countries.

The theory of developmental state has been provoked of effects of the economic troubles that were a result of states' failure to direct their development. It tries to strike a balance between neo-liberal stereotypes that view state intervention in economic affairs as unfavorable for economic development. Therefore, these prior studies fit well in this theoretical framework of developmental state.

The developmental state thinking as propounded by some scholars such as Adrian Leftwich subscribes much to the view that, too much of the freedom of the market is inimical to the real development owing to the market limitations and also acknowledges the importance of the role of the state in expediting development⁸. Hence harnessing of the inward capital by the state for achieving economic development through the use of governance capabilities is kernel to the study.

Limitations of the existing research

The existing research had been able to make a recommendation of a necessity for a further review on the existing good governance but was not able to provide options for ideal governance that could be adopted to foster quick economic development in the developing countries making use of accumulating capital. The states in the sub-Saharan

⁷ Constatina Kottaridi, FDI and the Role of Governance, Changing the Rules of the Game, Oxford Journals, vol.24, 79-98, UK. 2005,

⁸ Thandika Mkandawire, Thinking About Developmental States In Africa, Cambridge Political Economy Society, 2001.

countries are very weak because of the type of governance that the states have adopted. For the states to be fit enough to handle the refined interferences that are alignment with developmental state view, they should have strong political and directorial capabilities.⁹ So, the existing research went wanting in this department because it was unable to realize that the developed countries were able to seize good governance only at their mature stage of development, and at the same time they keep prescribing good governance (that seems demanding and pressing in terms of resources) for the developing countries yet the they (developing countries) are only at infant stage of their economic development.

Intended contribution

The study is designed to assess the interaction of FDI, governance and development in the context of Lesotho. The use of developmental state theory assists in the realization of the interplay role therein of the three variables captioned and how the state is crucial in guiding development through equitable distribution of resources to the functioning sectors of the economy and the public. Unorthodoxy view on good governance is that, the exclusive good governance does not provide state with relevant capabilities necessary for expediting economic development; as such the study makes a comparison of both market enhancing and growth enhancing governance types. This comparison helps in explaining that, though it plausible that governance does matter for economic development (as has been touted by the World Bank), but the type and capabilities of governance matters most for efficiency in redistribution of the accumulated capital for faster development. This resonates with the modern mercantilism view on the aspect of building strong state capabilities necessary to speeding up economic development of the country.

The developmental state theory advocates for a strong state which is only possible through the governance capabilities that are competent to promote development processes.

The countries experiences show that, it is not the regime type per se (authoritarian or democracy regime) which is the key to successful economic transition and their interplay as well as interrelations between the state and private actors proved to be crucial ... for economic transformation. This implies that the public goods, including institutions

⁹ Mkhawire T. *Op Cit*, p:297

crafted and enforced by the state as well as public policy are outcome of multiple actors¹⁰.

This means that the government-led coordination in activities and programs that are aimed at activation of development in a country remains indispensable. The efficient implementation of public policy and high productivity all have their roots in the governance competences and appropriate approaches. Even if the capital accumulation can show unprecedented growth more than any other time; if the governance type and strategies are not matched with appropriate governance capabilities, fast economic development is hardly possible¹¹.

If the trends reveal that Lesotho has done better in attracting FDI than other countries in the sub-Saharan African countries, and in spite of FDI spurt evidence provides that Lesotho's economic development is lacking behind in comparative terms the scenario will be attributable to governance type and its capabilities. If the governance type in Lesotho also divulges evidence that there are some inefficiencies in implementation of public policy and low levels of productivity resulting from inefficient distribution of resources, a general implication will be drawn that the governance type and capabilities are one of the main culprits in Lesotho's case.

Methodology

The study uses a comparative analysis to confirm that Lesotho is doing better than other countries in the sub-Saharan African countries as number of researchers have contended. Concurrently, a comparison is made to assess Lesotho FDI performance in relation to GDP per capita with other countries in the sub-Saharan African countries. The main objective at this point is to assess efficiency in distribution of resources and whether FDI potential is translated into acceleration of economic development.

¹⁰ Joachim Ahrens and Mengerlinghaus, Institutional Change and Economic Transition : Market enhancing governance, Chines Style, European Journal of Comparative Economics, vol.3,no.1 pp 75-102

¹¹ Ibid, p:78

For testing governance capabilities in relation to public policy implementation, the study used the data on bilateral commission for cooperation between Lesotho and South Africa. For a better inference, another comparative analysis was used between Lesotho and South Africa and South Africa Mozambique JPCC. This information was collated from the various official documents, in particular information related to Lesotho and South Africa JBCC. It also makes use of the electronic evidence provided by different sources such as international organizations and other scholars on issues of rethinking African development

The World Bank Development Indicators data set for forty-three (43) sub-Saharan African countries was used for the two variables namely FDI and GDP per capita. Five of forty-eight countries were removed from the total list of these countries owing to the fact that other countries had some incomplete cases; this means that in some years there was some none available data (N/As). Those five countries include Eretria, Namibia, Mayotte, Sao Tome and Somalia.

The expert opinion was also sought from various individuals in Lesotho and those include; the former chief executive of Standard Lesotho Bank and former Lecturer in department of economics in the National University of Lesotho and currently Lesotho Ambassador in Cairo. The lecturer in the department of economics in National University of Lesotho, the chief executive of Lesotho National Development Centre, Director in the ministry of development planning and Finance and some officials in the bureau of statistics in Lesotho. Other officials from the ministry of Trade, Marketing and Industry and Central Bank were contacted for crosschecking the reliability of data collected. Some information used was electronic materials, articles and news papers.

The World Bank data used had to do with the independent variable (Foreign direct Investment, Dependent Variable, which is development that is measured by per capita GDP and human development index. However, data for human development index used is the UNDP data for 2007/2008 human development index.

Individuals interviewed for this study have asked for anonymity given the nature of their substantive work. The Mozambique and South Africa Joint Permanent Commission for Cooperation was downloaded from the South African government website. This data is presented by Department of Trade and Industry and Department of Foreign Affairs.

Data analysis

GDP per capita growth (annual %) was recoded (gdp) and dubbed GDP per capita for the main name. Foreign direct investment, net inflows (as % of GDP) was also recoded (fdi) and named foreign direct investment for the main name. The data for each variable is covering fifteen years; from 1990 to 2005 and for each country, data has been averaged out. Refer to appendix 1 and 2.

The spread sheet was used to computing of data and statistical software package namely “R” was used for data analysis. The graphs scatter plots and tables were produced using both the “R” commander and spread sheet respectively. For the HDI scatter plot only those sub-Saharan countries that are at the same category of Lower middle Income as Lesotho were included for the purpose of comparison. Process tracing tool was used in relation to finding out capability in efficiency in implementation of public policy.

The structure of the Report

The first chapter sets up the stage in terms of looking at the historical perspectives of the FDI. It measures and reviews the main concepts. This chapter also, provides the attributes of the study and how the measures of concepts mirror those concepts. The second Chapter provides the theoretical framework and literature review. Theoretical framework facilitates a link to answering the research problem and justifying the approach as a possible avenue to the problem. It also explains the interrelationships amongst the concepts as captured in the research question. The literature review forms the second part of chapter two and entails prior related studies that are similarly or that are related to the explanation of the problem. This literature review provides a reflection of how other scholars view both the potential and weakness of FDI in various ways and at different levels. The third chapter presents the data analysis that begins with the univariate scatter

plots for the FDI as percentage of GDP and GDP per capita over the period of fifteen years for Lesotho. The second stage of this analysis is the bivariate scatter plot of FDI inflow and GDP per capita for the forty three sub-Saharan African countries. This is where the main comparison for evidence is being made. The explanation of trends and scatter plots for both graphs is made at this level.

The fourth chapter involves presentation of the bilateral commissions Joint Bilateral Commission for Cooperation between Lesotho and South Africa (JBCC) and Joint Permanent Commission for Cooperation (JPCC) between South Africa and Mozambique. This chapter makes a comparison of the two commissions that is aimed at testing Lesotho governance capabilities in effective implementation of public policy. This chapter will explain why the situation is out of sync in Lesotho in relation to the hypothesis that stipulated that governance type and capabilities limit FDI potential in accelerating economic development in Lesotho. The Chapter five discusses the main observations made in the analysis both in chapter three and four. Finally, conclusion forms part of this chapter.

CHAPTER ONE

Introduction

Background to the Study

The foreign capital flow out of the developed countries to the developing countries in three forms; grants investments, debts. Grants are a form of capital that involves bilateral agreements between two countries and they are widely known as foreign aid or ODA.

An investment consists of port-folio equity investment. The goal of equity share possession connotes that port-folio equity investment is more of view of financial returns not managerial authority. The second category of investment is for FDI which its equity share is motivated by lasting managerial power¹². FDI therefore turns to be the main interest of the paper and will form central part of the discussion.

According to David Yoffie, the advancement of FDI took three waves. Firstly FDI emerged in 1960s to early 70s. This wave was driven by locational advantage (low labor costs) and was basically Greenfield FDI. The second wave emerged in the late 1970s and by this time it was able to graduate beyond Greenfield FDI to M&A and at this stage was manufacturing oriented FDI. The third wave came in the 1990s to date and it was mainly characterized by a myriad of functions. This FDI is in Greenfield fronted fabrication facilities. All these three waves were driven by political change both in Japan and US¹³.

Following the neo-liberals that were jostling in favor of opening up of economies for capital flow and professing that FDI was crucial for growth, African countries also tried to change their perception in relation to FDI. Most of the African leaders used to have apprehensions that FDI was a threat to their countries' sovereignty. However, this school of thought in tandem with numerous World Bank reports cautioned that retarded economic growth in Africa was owing to poor capital accumulation; WTO, IMF and the UN organizations and some developed countries such as Japan, USA and European community had also been for years drumming up for general spread of FDI through the

¹² Ha Joon Chang , 2007, Bad Samaritans, The guilty secrets of Rich Nations and Threat To Global Prosperity, Random House Business Books, UK.

¹³ David B. Yoffie. Foreign Direct Investment, <http://www.nber.org/chapters/c6538.pdf>, accessed on this date: 13/08/08

multilateral and transnational companies¹⁴. As a result, estimates¹⁵ show that equity investment of both portfolio and direct investment in the emerging economies in 2002 increased. The IMF estimated that in 2002 there was an inflow of \$ 156.3 billion in 2002 to the developing countries, compared to \$149.4 billion of 2001. As such, African countries have endorsed FDI as an animator of growth.

It is in this view that, Lesotho being a tiny, mountainous and resource underprivileged country within South Africa has emerged as the largest and fastest growing exporter of textile from Africa to the US. Its swift industrializing enlargement has been motivated by inflows of export-based FDI and lately has natural resource-seeking FDI¹⁶. At this rate, Lesotho is said to have performed relatively well in attracting FDI inflows in Africa coming from a deep-range of \$3 million in 1982 to \$27 million in 2002 and \$52 million in 2005.¹⁷

This FDI surge into Lesotho was stimulated by trade privileges offered by the US such as MFA and AGOA, respectively. Lesotho's currency, the Maloti, which is pegged to South African Rand, the low inflation rate which constantly ranged between 10-15 percent annually since the year 2000 to date, its free trade agreement with its neighbors in Southern Africa, SACU that offers access to free large market. However there are few exports of textiles to the region. More than 90% of Lesotho's exports are destined to the US market. The democratic government which also seemed stable for years after the 1998 political turmoil had highly appealed for investment.

¹⁴ MIGA, http://www.miga.org/news/index_sv.cfm?stid=1506&aid=297, accessed on this date: 13/08/08

¹⁵ OECD Report 2002, http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VGK-487KG3C-3&_user=1378557&_rdoc=1&_fmt=&_orig=search&_sort=d&_view=c&_version=1&_urlVersion=0&_use_rid=1378557&_md5=9ff080b9c799337991f23a89ca94adbd, accessed on this date: 13/08/08

¹⁶ Sanjaya Lall, FDI, AGOA And Manufactured Exports From A Land-Locked, Least-Developed African Economy: Lesotho, October 2003

¹⁷ World Investment Report 2006, FDI from Developing and Transition Economies: Implications for Development, UN. New York.

Multi-Fiber Agreement (MFA)

MFA was ratified in 1974 and had been the basic turning point for GATT to ensure fundamental set of laws and ethics of non-discrimination in the international trade¹⁸ and was enforced until the coming of the agreement textile clothing (ATC) under the auspices of WTO in 1995¹⁹. The developed countries had to solicit the imposition of quotas on the then squirt of imports from the developing countries in an attempt to deal with the threat that seemed possible on their local industries. The restraints were in particular focusing on those goods from Asia countries; for instance China²⁰. However, MFA expired in December 2004 and implications of its phasing out had an impact on some of the developing countries such as Lesotho.

However, in the period 1995 to 2004, the ATC became an interfacing tool and was a recipe of many ingredients: manufactured goods coverage, including fabric products, plan for continuing incorporation of these fabric products into general agreement on tariffs and trade (GATT) 1994 rules, liberalization process to advancing expansion of quotas to their elimination, protective mechanisms in favor of local firms of developed countries during the period of changeover and inclusion of rules of origin²¹.

Africa Growth Opportunity Act (AGOA)

AGOA came into force in 2000 as a result of American comprehensive arrangement of trade preferences and other intentions²². The main purpose was to improve the US market relative and exclusive openness to the 39 sub-Saharan African countries. At first, it was valid until 2008; however it was modified in 2004 to expire in 2015²³. The major amendments in AGOA regulation for expanding the fabric proviso to 2012 and in July

¹⁸ http://www.wto.org/english/tratop_e/textile_e/textintro_e.htm, accessed on this date: 28/June/2008

¹⁹ Esther de Haan and Myriam Vander Stichele, Investing In The Garment Industry In Africa, Footloose Investors, August 2007, Amsterdam

²⁰ Ibid,p:15

²¹ Junyuan Christopher Tan, Liberalization of Trade in Textile and Clothing, China Impact on ASEAN Economies, May 2005,USA

²² Federal Register, April 2008, USA.

²³ <http://www.agoa.info/>, accessed on this date: 28/June/2008

2007 another improvement on textile certificate of origin was put into place and approved entry of 6400 products including clothing from sub-Saharan Africa²⁴.

Despite the fact that AGOA endows recipient African countries with free access to the US market and facilitates for high level dialogue on trade and investment in form of US-sub-Saharan Africa Trade and Economic Forum, certain terms and conditions apply for making a country eligible each year by the discretion of the United States of America²⁵.

Such conditions include encouragement of trade liberalization between US and Africa. Safeguarding of intellectual property rights and upgrading in standard testing; classification and qualifications, ensuring the global renowned labor rights, to the inclusion of rights to negotiate jointly and inhibition of coerced labor, removal of price controls, subventions, and interference with the business authorizing procedures; supporting private ownership of public owned businesses; the abolition of government corruption; Non-involvement in actions which sabotage the United States general security or foreign policy interests and implementation of a market-focused economy²⁶.

Lesotho Challenges as a sub-Saharan African Top exporter of apparel to the US

Lesotho experienced a setback blow when the MFA expired in December 2004. Some factories closed down and as a result thousands of Basotho people lost their jobs from the textile industries. The FDI growth was destabilized in 2005 to 2006 by Chinese market rivalry after the elimination of MFA restrictions and this competitiveness resulted in 17 percent fall of Lesotho's exports in 2005. Lesotho also got disadvantaged at times by the appreciation of Rand on which Loti is pegged. China's admission to world trade

²⁴ <http://www.agoa.info/>, accessed on this date: 28/June/2008

²⁵ Gabriel Laizer, AfricanTextiles, TED Case Studies Number 633, 2001, <http://www.american.edu/TED/africatextile.htm>, accessed on this:29/June/2008

²⁶ http://www.cetim.ch/en/interventions_details.php?iid=156, accessed on this date:29/June/2008

organization (WTO) and the negotiation influence it exercises in taking away the trade favored treatment for exports from least developed countries overshadowed whichever optimism of prospective budgetary assistance to Lesotho government²⁷.

The model for industrialization in Lesotho is not sustainable. It is a footloose M&A that relies on one major source of FDI (mainly from China). It relies on one major export (apparel and textile) and one major export destination (US). Moreover these exports are driven by AGOA which can end at any time. The end of MFA is case in point that brought uncertainty in Lesotho's textile industry.

All over again, the sub-prime mortgage loan crisis in the US, which is spiraling and likely to cause a recession in the US economy will soon or latter affect Lesotho. The sub-prime mortgage loan is the problem in the housing market that has resulted in a problem in the financial market in USA. How did this happen? In brief terms, this phenomenon has got its roots in the investors' willingness to provide mortgage loans to customers with poor credit record and eventually with the increasing interest rates the customers defaulted²⁸.

Subsequently, the Banks in the US confiscated property from defaulters and that has trapped Americans in a revolting debt. This has affected the consumption patterns of consumers and Wal-Mart has recently reported a decline in consumers purchasing trend. These vindicate Charlene Clayton's argument that "Should the property market in the United States go belly-up, American consumers will dramatically curtail their spending and this will affect economies around the world, including South Africa."²⁹ In the beginning of 2008 we saw Tito Mboweni (Governor of South African Reserve Bank) on media reporting that investors were pulling out of South African economy. "Figures released this week show that... This year to date foreigners have been net sellers of South

²⁷ Raphael Kaplinsky , The Impact of Asian Drivers On The Developing World, August, 2006, Open University, Milton

²⁸ www.prospect.org/csnc/blogs/beat_the_press_Archive?month=02&yaer=2008, accessed on this date: 29/June/2008

²⁹ Charlene Clayton, South Africa will Suffer, If US Bubbles Burst, Personal Finance, 18 June 2005, <http://http.persfin.co.za/index.php?fSetId=300&fSectionId=709&fArticleId=2562104>, accessed on this date: 13/08/08

African equities...”³⁰. This is because investors believe that US economy is the last one in the world to collapse, so they are fleeing to safer economy. As a result, organization for economic cooperation and development (OECD) economic outlook has reported that Chinese economic growth is beginning to show signs of slowing- down due to a lower export contribution³¹. This is because China is also one of the biggest exporters to US from Asia.

The curtailed spending of consumers in US affects such countries like China, and Lesotho is likely to experience a serious downturn in its exports and FDI as US consumers continue to hoard money. The consumers’ confidence to spend is wearing with spiraling sub-prime mortgage crisis that is taking its toll against US economic performance³².

Lesotho Economic Structure

This section discusses structural outlook of Lesotho’s economy. First of all, it briefly discusses Lesotho’s economic freedom, its performance in comparison with the world standards and the degree to which Lesotho economy is rated by World Heritage Foundation. It further presents the performance of the three interlocking economic sectors that are being explained in figure1.0. The primary sector is comprised of agriculture and mining sector, the secondary sector entails manufacturing, electricity, telecommunication and water services and tertiary sector also show economic performance of business activity.

Lesotho’s macroeconomic policy is hemmed in due to its membership in the Common Monetary Area (CMA). According to Heritage Foundation 2008 report³³, Lesotho’s economy is 51% free and this positions Lesotho at 132nd freest economy in the world and

³⁰ Maya Fisher-French, South Africa’s financial services industry might be relatively unscathed by turmoil, but the flight of investors could bring a balance of payments crunch, Mail and Guardian, March 20-27, 2008, SA.

³¹ www.propeller.com/China, accessed on this date:28/June/2008.

³² Donald W.Dony, Is the Fed Too Late to Head Off a US Recession?
<http://www.marketoracle.co.uk/Article2977.html>, accessed on this date: 14/08/08

³³ Heritage Foundation Report of 2008, Index of Economic Freedom-Lesotho,
<http://www.heritage.org/Index/country.cfm?id=Lesotho>, accessed on this date: 07/07/2008

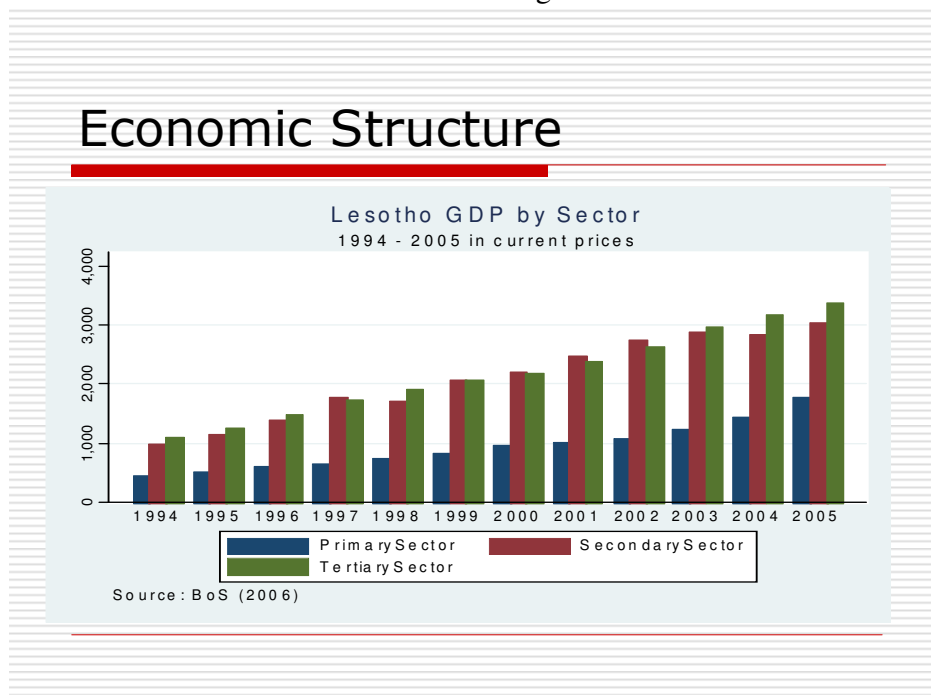
31st out of 48 sub-Saharan African countries. Though the Government of Lesotho intervenes in price make-up (markets) of certain commodities, it does not strongly grade itself in any category but is equivalent to world standard of monetary freedom. The Business freedoms, i.e. to open, operate and closing business is rated at 56.9%. This means that the regulatory regimes in Lesotho are still tight and its trade foreign policy also has some degree of restrictiveness because of its membership in SACU. Opening a business costs an average of 73 days, as opposed to the world average of 43 days. Attaining a business license takes more than the world average of 234 days, and costs are high for setting up business. Trade liberty is also rated at 56.4% i.e. the weighted aggregate tariff rate was 16.8% in 2005 and the paucity of candid and diaphanous procedures in enacting import licensing, import bans and restrictions and corruption are detrimental to trade³⁴. The fiscal freedom is at 67.2%; the tax regime is onerous with the income tax rate of 35%. Corporate tax rate for all companies with the exception of the manufacturing sector that resides in the range of 25% is quite steep for both employees and business at large³⁵. The value added tax (VAT) is another burden on the shoulders of the entire business market while the grinding tax on dividends is quite backbreaking. Freedom from political interruption is ranked at 46%; the government spending is at 42.1% of the total GDP. The privatization is going at a slow pace however it is at better rate in comparison with other countries in the region. The monetary freedom is at 75.4%; the inflation hovers at 5.3% hence unstable prices of commodities. The investment freedom is also rating at 30%; the political turmoil and paucity of transparency costs the FDI inflow a big deal. The financial freedom is at 50% and is very much weak however pegged to South African through the common monetary area (CMA) that includes Swaziland and Namibia. A bigger proportion of people do not have sufficient entrée to banking service and financial controls barely contest for improvement.³⁶

³⁴ <http://www.heritage.org/Index/country.cfm?id=Lesotho>, accessed on this date: 07/07/2008

³⁵ <http://www.heritage.org/Index/country.cfm?id=Lesotho>, accessed on this date: 07/07/2008

³⁶ Heritage Foundation Report of 2008, Ibid

Figure 1.0



Primary Sector

Figure 1.0³⁷, illustrates that Lesotho experienced the worst drought in the period under review. The average yield per hectare of maize production is estimated to have declined by 42.0 percent while sorghum declined by 25.0. The shortfall was expected to be counterbalanced by imports to the tune of 256 000 tonnes during the marketing year 2007/08. The sectors share to GDP is 20.0 percent. The mining and quarrying has displayed an exceptionally good performance of late, rising by 150 percent in 2004 following a 5.7 percent increase of the preceding year. This is attributable to the reopening of Letseng diamond mine which has boosted the sector immensely. It helps to elevate its potential as a diversification channel away from traditional export-led growth through manufacturing³⁸. Table 1.0, shows a significant increase in diamond production.

³⁷ 2006 database from Lesotho Bureau of Statistics on Lesotho economic structure was used to construct the bar chart as seen at fig 1.0

³⁸ Lesotho review 2006, http://www.sanec.org/images/stories/Country/Lesotho_Review_2006.pdf, accessed on this date: 13/08/08

Table 1.0, the trend of mining sector in Lesotho

Year	Total weight of carats (Maloti)	Total Value(Maloti)	Total export levy (Maloti)
1995	13,190.61	3,457,788.98	518,668.35
1996	3,128.50	475,639.87	71,345.98
1997	4,204.92	572,126.00	85,818.90
1998	2,177.39	369,544.00	55,431.60
1999	2,052.57	582,870.00	87,430.50
2000	1,163.79	771,691.00	115,753.63
2001	553.59	498,896.00	74,834.40
2002	314.34	4,704,000.00	70,500.00
2003	1,898.94	38,270,911.96	2,696,167.84
2004	682.94	173,500,143.20	12,167,730.03
2005	50,355.78	431,107,018.02	30,228,701.70
2006	97,097.69.00	599,209,112.90	44,516,288.00

Source: Department of mining and Geology³⁹

Secondary sector trend

In Lesotho, the secondary sector comprises manufacturing, electricity and water, building and construction sub sectors. The consumption of electricity has increased 15.5 percent on quarterly basis, and by 0.3 percent on annual basis, while total water consumption increased by 69.9 percent on a seasonally adjusted quarter to quarter basis and a meaningful fluctuation of building permits for both commercial and residential also enabled an improvement in this sector. On average, this trend, as seen on figure 1.0, facilitate a change for better to the secondary sector since 1995.

Tertiary sector trend

The value of retail sales turnover, as an indicator of economic performance of business activity in the economy and investment expenditure increased by 20.4 and 18.8 respectively as the tertiary trend affirms on figure 1.0. The increase on annual basis indicates long term capital formation, while on shorter term the economy is expected to have accumulated more fixed capital. The tertiary sector remains the main contributor to the GDP, at the share of 44.8 percent. Since 2001, the economy has been heavily reliant on the exponential growth of exports in clothing sector as a result of the introduction of AGOA. This scenario exposes Lesotho's economy to the danger of external shocks.

³⁹ The data was provided by the ministry of natural resources, Department of mining and Geology officers.

Lesotho public governance outlook

Lesotho as one of the least developed countries has adopted good governance as propounded and measured by World Bank which has been discussed in full details later-on in this study. According World Bank governance indicators, Lesotho governance indices rank in the following percentages; voice and accountability 52.4, political stability 44.7 governance effectiveness 26.8, regulatory quality 24.8, rule of law 47.1 and control of corruption 54.6⁴⁰. The grading is good when it is close to 100% and bad when it is close to 0%.

This governance model continues to be crippled by awful crony capitalism in Lesotho. Crony capitalism denotes that there is a thin line between the economic oligarchs and political elites⁴¹. It develops over time through number of ways which will just be mentioned because of space limitation and purpose of the study⁴². (i) The political appointments and lucrative employment in favor of individuals who managed to ingratiate themselves with government executives, (ii) Paucity of fiscal restraints and state financing of distinctive affinities, (iii) misguidance of parliament and the populace (iv) The dispensation of eminent privileged positions and power to the cronies of the government executives and lastly the forsaking of competition policy and adoption of segregating policies in favor of certain industries⁴³.

Crony capitalism as a spill over of crony statism into business sector is not in alignment with the ethos of developmental theory as the government acts as a pander to certain few groups of individuals and as a result, maintains the gap between the rich and poor yawning.

⁴⁰ Meisel Nicolas: 2004, Governance, Culture and Development, A Different Perspective On Corporate Governance, OECD, USA

⁴¹ Mark Latham, Competitive Capitalism versus Crony Capitalism between Labour and Liberal, 08 19, 03 <http://www.smh.com.au/articles/2003/08/19/1061261153599.html>, accessed on this date: 07th/08/08

⁴² <http://www.smh.com.au/articles/2003/08/19/1061261153599.html>, accessed on this date, 7th/08/2008

⁴³ <http://www.smh.com.au/articles/2003/08/19/1061261153599.html>, accessed on this date, 7th/08/2008

Measurement of concepts

Foreign Direct Investment

The OECD Benchmark neoclassical definition⁴⁴ describes FDI as a type of cross border investment capital set up by a citizen investor in another economy with the purpose and intent of getting hold of durable and strategic management significance in an enterprise undertaking investment in a foreign economy other than that of the direct investor. The impetus of the direct investor is a deliberate, lasting symbiotic association with the enterprise (direct investment) to cement a certain extent of authority and control in the management of the direct investment venture. The durable association is secured and effected by at least 10% of the decision making process. The direct investor intents and purposes are different from the portfolio investment where investors are not necessarily interested in control and authority in the normal operations of the company itself.

UNCTAD 2003 however defines FDI as the subset of capital flow which include only the financing of a foreign affiliate by a parent company in form of loans, equity capital or reinvested earnings⁴⁵. This implies that, a parent company owns or controls certain assets of a foreign affiliate.

Phrases like lasting interests, control and foreign affiliate seem to be common in all definitions provided. The phrase lasting interest is used basically because FDI is associated with 'sunk-costs'⁴⁶. FDI does not just disappear tomorrow because the situation is bad in a certain country. It stays even if situation is not conducive because of huge capital that committed in a certain country's economy. This part of definition distinguishes FDI from other forms of international flow of money such portfolio investment and institutional investment. 'Ownership and control' words have got a connotation of commitment and share of leverage that FDI suppose to have to a host country and foreign affiliate company respectively.

⁴⁴ www.oecd.org/def/investment/statistics, accessed on this date:07/06/2008

⁴⁵ UNCTD 2003, foreign direct investment and performance requirements: new evidence from selected countries, UN New York, Geneva

⁴⁶ Sunk-costs are those costs that an investor has incurred to set up an enterprise including all the capital that has been committed for the enterprise to start up. The greater the sunk costs for a direct investor, the more likely to invest more in the same economy.

Lesotho definition of FDI

Lesotho defines FDI as, “Non-residents branches and subsidiaries of enterprise or its subsidiaries. Non-resident enterprises in which, the enterprise or its subsidiaries have equity of 10 percent “⁴⁷. By this definition, it is understandable that Lesotho Highlands Water Project royalties do not qualify to be classified as FDI. “Both are inward flows however FDI is a special subset of capital flow which include only financing of foreign affiliate by a parent company in form of loans, equity capital or re-invested earnings”.⁴⁸

The main features of FDI

As it has been laid down that it is always notable to identify FDI pertinence within the total accounts of a country concerned and within the purview of balance of payments and international investment rating structure⁴⁹.

- The national financial accounts and flows of funds (in system of national accounts) makes record of the total stocks of funds and matches flows between the economic units which form part of business dealings with citizen economic units or have economic networks with them. FDI is only in the class of cross-border financing business ventures.
- FDI is one of the five practical types of the financial accounts of balance of payments and commensurate to international investment arrangement statements. The data for balance of payments and international investment set-ups are expressed as broad aggregates for the major sub-components of these accounts.
- “Conceptually, the population of enterprises by the statistics of activities of the multinational enterprises is subcategory of enterprises covered by FDI.

Types of FDI

There are two basic forms of FDI by target; the Greenfield and Mergers and Acquisition. Though the two relatively are deemed having potential for growth, their impact might be

⁴⁷ Central Bank of Lesotho, Report On The Private Capital Flows Surveys, 2006 Maseru

⁴⁸ UNCTAD, Investment Policy Review, 2004 Lesotho.

⁴⁹ OECD Investment Report 2008, Paris, <http://www.oecd.org/dataoecd/18/28/40887916.pdf>, accessed on this date:13/08/08

comparatively be not the same on the economy of the host. As could be their impact, their motivation is also not the same.

- Greenfield Investment is defined as a form of FDI that conveys with it, the new production facilities into the host economy.⁵⁰
- M&A is also defined as the form of FDI that acquires the existing assets within the host economy and is common in developing and emerging economies. However policy makers and some scholars such as Adams have indicated lingering concerns pertaining to the commitment of this form of FDI to the host economy since it transfers ownership of production facilities to the foreign companies⁵¹.

How M&A and Greenfield Investments differ

In its report of 2000, UNCTAD has warned that the benefits of M&A are less with and sometimes the risk of negative upshots is high compared to Greenfield potential⁵². The following downside aspects of M&A were identified:

- As the form of financial resource, M&A is characterized with inability to augment the capital stocks in the host. It has smaller investment benefits to the host economy compared to Greenfield FDI.
- FDI that goes through M&A framework is less likely to bring hope in so far as better technologies are concerned than Greenfield.
- M&A FDI does not have potential of job creation for the local staff at the early stage of its entry into the host and can lead to some provisional layoffs for the duration of restructuring the enterprise.
- When the bottom line objective is to have a mutual benefiting set up between the host and direct investor, M&A FDI has a propensity to benefit a direct investor at the expense of local companies.

⁵⁰ Mtswala Mwilima, *Foreign Direct Investment*, Africa Research Network.

www.larri.com.na/research/FDI%20in%20Africa.doc, accessed on this date: 12/06/08

⁵¹ Charles Adams and YU Ching Wong, Trends In Global and Foreign Direct Investment Flows, Laos and Vietnam, August 2002, Asia. <http://www.imf.org/external/pubs/ft/seminar/2002/fdi/eng/pdf/wong.pdf>, Accessed on this date: 12/06/08

⁵² UNCTAD, World Investment Report 2000, http://www.unctad.org/en/docs/wir2000_en.pdf, accessed on this date: 13/08/08

Development

To take into account multi-dimensionality of the concept, gross domestic product (GDP) and human development index (HDI) will be adopted as measures of economic development in this paper.

- GDP as defined and explained by UNDP is an average gauge of overall national economic performance for a given period of time. It represents the market value of the total goods and services produced in a country⁵³. It does not however account for the quality of life, income inequalities amongst the citizens, level of quality of education, the environmental quality control and the extent to which political rights allotted to the people.
- HDI, as defined by UNDP, is understood as a compendium of numerous development indicators that measure an aggregate of reforms and progress in a country⁵⁴. The development aspects that HDI take into consideration include: Long and healthy life as measured by life expectancy at birth, Knowledge, that is measured by adult literacy rates, and compounded primary, secondary and tertiary gross enrolment ratio and decent standard of living as measured by GDP per capita in purchasing power parity (PPP) in requisites of US dollars.⁵⁵

Governance

World Bank, using Daniel Kaufman's benchmark, defines governance "as the set of traditions and institutions by which authority in a country is exercised"⁵⁶. It further adopted six indicators to measure governance: voice and accountability, political stability and absence of violence, government effectiveness, and regulatory quality, rule of law and control of corruption. In a brief account, let us have a summary of what all these indicators of good governance measure:

⁵³ UNDP, International Conference, 19 to 20 November 2007, Brussels

⁵⁴ UNDP, Human Development Report 2007-2008, <http://hdr.undp.org/en/reports/global/hdr2007-2008/>, accessed on this date: 08/06/08

⁵⁵ The HDI as a composite measure of economic progress has been adopted as UNDP prescribe it in 2007-2008 report.

⁵⁶ World Bank, a Decade of Measuring the Quality of Governance, World Wide Governance Indicators, 1996-2006, Washington.

The degree to which populace in a country is free to participate in a process of electing its government, at the same time freedom of speech, association and a freedom of media are also considered. They cover conceptions of the probability of interruption of the smooth functioning of government through illegal means. Again they also relate to the extent, to which the public institutions are efficient, free from political manipulations, excellence in policy choice and integrity of government's dedication to the execution of such policies.

Furthermore, they measure how far government is capable of facilitating a favorable environment for the private sector and the extent to which government adopts and controls its own policies. The scope of these indicators covers the loyalty to the rule of law, levels of criminality and hostility, ensuring of observance of formal agreements and whether certain factions of the society practices do not conform to the rule of law. Finally, they rate the capacity of powers that be for using authority vested in them without misappropriation to personal benefit.

However Mushtaq H. Khan makes a distinction between market enhancing and growth enhancing governance⁵⁷. Neither of the two is likely to discount the role of governance in economic development but the difference resides in the organization of state capacities and stages of development at which each type of governance can be adopted. The former is synonymous to the good governance as measured by Kaufman⁵⁸, and the latter is defined as: form of governance that obliges significant capabilities of state to expedite amassment, equally in private and public spheres of state, and ensure efficiency in production and development in the captioned sectors⁵⁹. The indicators of good governance or market enhancing governance require heavy financing for them to be effectively achieved. So, the developing countries over stress their insufficient resources in an effort to making ends meet (in relation to achieving

⁵⁷ Mushtaq H. Khan, Governance, Economic Growth and Development since the 1960s, School of Oriental and African Studies, August 2007, UK.

⁵⁸ Ibid, p: 2

⁵⁹ Ibid, p:3

good governance) when concurrently compromising the real growth and development for their people.⁶⁰

As a result, the developing countries (especially sub-Saharan countries) seem to be grappling with good governance model. It has to note that most countries African countries relinquished growth enhancing governance, at least a decade before Daniel Kaufman could coin good governance indicators. It means the model is now above ¼ of the century but the sub-Saharan countries are still struggling to achieve better score for each indicator in relation to World Bank benchmarks. The table below clearly shows how the sub-Saharan region is performing in relation to good governance.

<i>Table 2.0 Sub-Saharan region and Good Governance scores</i>	
Indicator	score
Voice and Accountability	33.2
Governance effectiveness	26.8
Political Stability	-34.2
Regulatory quality	27.8
Rule of law	47.1
Control of corruption	54.6

Source: World Bank Governance indicators⁶¹

Despite the G8 pledged support on good governance as enshrined in APRM, the regional good governance indices reveal how slow the region is progressing in relation to effective embracing of good governance model.

⁶⁰ Ibid, p:4

⁶¹ World Bank , *Worldwide Governance indicators*, 1996 to 2007, <http://info.worldbank.org/governance/wgi/index.asp>, accessed on this date: 27/05/08

Each of these goals, such as the reduction of corruption, the achievement of stable property rights, and effective rule of law requires significant expenditures of public resources. Poor economies do not have the required fiscal resources and requiring them to achieve these goals before economic development takes off faces a serious problem of sequencing.⁶²

The main point of this argument is not to condemn the market enhancing governance but is to give emphasis to the significance of sequencing.⁶³ As some arguments have emphasized the substance of achieving economic development before embracing of good governance goals, the early stages of development require great care of state where growth enhancing governance can turn around development outlook in developing countries. The resources redistribution which is essential at the early stage of development seems not likely through market mechanism alone and constantly market itself is riddled with numerous letdowns especially when it comes to reversals of low productivity⁶⁴.

The argument on sequencing issue is consistent with Ha Joon Chang argument that “virtually all NDCs actively used interventionist industrial, trade and technology (ITT) policies that are aimed at promoting infant industries during their catch up periods”⁶⁵. This means that, before the now developed countries (NDCs) could adopt the market enhancing policies, first they adopted the growth enhancing all with the view of keeping pace first with successful developers. Joseph Stiglitz agrees that, “Many of the sequencing mistakes reflected fundamental misunderstandings of both economic and political processes, misunderstandings that were particularly associated with those who believed in market fundamentalism”⁶⁶. This implicitly means that the exclusive adoption of market enhancing governance will not help the state to achieve the cohesiveness of the society as developmental state view envisages.

⁶² Khan M. Op. Cit, p:4

⁶³ Ibid,p:3

⁶⁴ Ibid,p:3

⁶⁵ Ha Joon Chang: 2003, Kicking Away The Ladder, Development Strategy in Historical Perspective, British Library, UK.

⁶⁶ Joseph Stiglitz, Globalization and its discontents, 2002, The Penguin Press, UK.

Distinction between market enhancing and growth enhancing governance

Marketing enhancing governance puts emphasis on state-minimized intervention with the market. The goals of market enhancing were earlier discussed in good governance of World Bank approach. Yet, the main assumption is that market will be more effective on its own.⁶⁷

The growth enhancing governance involves the function of governance in facilitating catching up process by developing countries in the perspective of complementing the market infallibilities. It concentrates on efficaciousness of state agencies for expediting transfer of resources to more industrious and prolific sectors and even stepping up the adoption and acquiring new skills of advanced effective technology⁶⁸. The primary objectives include attaining market and non-market allocation of resources to more industrious and efficacious sectors, administering inducements and obligations for acquiring quick technology and productivity improvement and upholding of the political stability in the background of swift social reform.⁶⁹

Investment share in GDP growth in the sub-Saharan African Countries

In comparison with some selected countries in the sub-Saharan Africa, Lesotho growth seems to be propelled by factor accumulation⁷⁰. In the period 1960 to 2002, real growth rate per year was at 3.4 and the factor accumulation was pacing at 3.5% comprising 105 percent of GDP; where 74% was contributed by physical capital and 31% was share of labor capital⁷¹. The table 2.0 below summarizes the investment as a percentage of GDP for the period stipulated in the notes of the table.

⁶⁷ Loc cit, p:3

⁶⁸ Khan M. *Op. Cit.* p:18

⁶⁹ Ibid, p:3

⁷⁰ Ibid,p:4

⁷¹ IMF Country Report No.08/135., The Kingdom of Lesotho, Selected Issues and Statistical Appendix, Washington DC. April 2008

Table 3.0, Real GDP growth in selected countries in sub-Saharan Africa, 1960-2002

Country	Investment/GDP	Real GDP growth	Total productivity
Sub-Saharan Africa	19.9	3.2	0
Angola	18.9	2.3	-1.4
Botswana	27.5	7.5	2
Lesotho	44.2	3.4	-0.1
Madagascar	13.1	1.2	-0.2
Malawi	14.6	5.3	0
Mozambique	20.4	3.6	0.3
Namibia	20.5	1.9	-1.1
South Africa	18.9	3.1	0.1
Swaziland	22.4	4.6	1.4
Mauritius	23.9	5.3	1.2
Zambia	14.3	2.3	1.4
Zimbabwe	16.8	2.6	-0.7

Source (Source: Tahari, Ghura, Akitoby and Aka, 2004 and World Development Indicators in IMF Country report)

Notes: Investment is average gross fixed capital formation as a percentage of GDP from 1980-2004⁷².

Though investment seems important, (at least for each country selected) there are variations in importance. For Lesotho, the share of investment in GDP is relatively large however the real GDP growth does not surpass that of Botswana, Malawi, Mozambique and Swaziland. This scenario confirms how investment, as another form of capital formation, is important and indispensable for Lesotho's economic development.

The export led FDI into Lesotho, contribute more or less 90% of the total investment. The country has provided evidence that it is the African biggest exporter of clothing to the US market. It is one of the few countries to be successful in FDI in the non-mining sector and given its size in terms of population and economy, its FDI is relatively too outsized.⁷³

Regarding the total productivity, Khan's argument seems to be supported with the empirical evidence here. First, it was argued that the good governance model is incapable ensuring effective allocation of resources due to its infallibilities. Secondly, the

⁷² The notes are provided by the IMF as the entire statistics

⁷³ The World Bank Group/MIGA, Snapshot Africa, Benchmarking FDI, January 2007, Washington DC

productivity is contingent on effective resource dispensation. So, the IMF demonstrated levels of productivity in sub-Saharan Africa of which Lesotho is one of the lowest. Swaziland level of productivity speaks volumes about the focus of governance capacities. We recall that Swaziland being one of the tiny Southern African countries, a little bit smaller than Lesotho and with its investment comprising only 22.4% in the total GDP. Mostly, it calls for an investigation whether good governance, as most of the sub-Saharan African countries have adopted it, is consistent with high productivity. The evidence is not convincing that supporting good governance will correspond with high productivity.⁷⁴

What makes FDI important and urgent for Lesotho?

The factors that justify this conceptual framework are both economic and political: As a landlocked country, Lesotho has suffered legitimacy shrinkage and some scholars keep referring to it as ‘governments of dubious legitimacy’ due to its inability to creating and sustaining employment for its citizens since its independence⁷⁵. Its reliance and dependence on migrant labor for more than a decade made its legitimacy doubtful to some Basotho people both inside and outside Lesotho⁷⁶. “Lesotho’s self-doubts were reflected in two conferences sponsored by the National University of Lesotho focusing on Lesotho’s role in a post-apartheid South Africa...National Union Mineworkers endorsing the political integration into democratic South Africa.”⁷⁷. Though by this time, it was already commanding a preferential access to European market through Lome` convention III, only a few South African and Taiwan companies were slowly trickling down to Lesotho. This means that the unemployment rate was still very high in Lesotho and this is what made Lemon to comment South Africa for being a conceived neighborhood that afforded Basotho people with time and space rights for earning their livelihoods in the same manner it did to the Afrikaners and Zulus.⁷⁸

⁷⁴ Khan M. *Op. Cit.* p: 4

⁷⁵ Anthony Lemon, *Lesotho and the New South Africa: the question of Incorporation*, The Geographic Journal, volume 162 part 3 November 1996 Oxford.

⁷⁶ Ibid,p:264

⁷⁷ Ibid,p:264

⁷⁸ Ibid,p:265

Lesotho government legitimacy was even more dented when Basotho mineworkers were homologated and included within legal framework and national boundaries of the new South Africa. This privilege was provided to those migrant workers who had a minimum period of 10 years working in South Africa⁷⁹. As Lesotho's constitution does not sanction the dual citizenship and approval of citizenship, the Basotho mineworkers forfeited their Lesotho citizenship automatically and put some constraints on Lesotho's economy since contraction in flow of remittances into Lesotho was inevitable. "The Basotho nation is no more 'natural' than any other. It possesses a high degree of ethnic homogeneity, but the 'nation in an ethnic sense is already divided between two states, Lesotho and South Africa.'" ⁸⁰ As if it was not enough, the problem got aggravated when retrenchment took a toll against Basotho mineworkers around the same time (1995-1996). "Alternative employment opportunities for retrenched workers are severely limited." (Roy Love⁸¹) The new democratic South Africa did not mean much of an economic fortune to its neighbors. Its reincorporation in the international market left countries like Lesotho in the cold.

While the change to democratic government in South Africa has been welcomed by most people in what is termed 'front line' states, the future relationship between these states and South Africa is likely to remain problematic....Lesotho in particular, may well be in process of transition from 'dependent development to 'dependent underdevelopment. ⁸²

The new South Africa did not only change direction of capital flow but became a common centre for international aid as well. As Roy Love argued, donors considered a rollback of financial support from the former (as they were dubbed) front line states and focused to more politically strategic beneficiaries⁸³. This meant that, UNDP, IDA, Canada, Denmark and Sweden had to cutback their budget towards countries like Lesotho in favor of South Africa⁸⁴.

⁷⁹ Ibid,p:266

⁸⁰ Ibid,p:267

⁸¹ Roy Love, Lesotho: Inner to Outer Periphery, Review of African Political Economy, 01, March, 1996 National University of Lesotho.

⁸² Ibid,p:75

⁸³ Ibid, p:77

⁸⁴ Loc cit,p:77

In Lesotho, the smaller size population translated into inadequate institutional capacity in both public and private sectors⁸⁵. The state institutions and private sectors are comparatively small and this affected their capacity and competitiveness. In the same view, UNDP attributed its budgetary contractions to the limited implementation that characterizes the entire Lesotho system.⁸⁶ USAID and US Information centre downsized their programs and relocated their offices and staff to South Africa on the same grounds.

“...the conviction that Lesotho is neither a place of ‘work’ (i.e. of money making) nor a centre of ‘progress’ (industry, modernity) - although it is controversial whether the none development syndrome is more clearly a product of Lesotho being so much less industrialized...”⁸⁷ The pessimism, scanty patriotism and a strong desire (of some of the Basotho people) that Lesotho be integrated into South Africa were rooted only in economic grounds. Coming from way deep with industrialization and FDI attraction is critical for the regeneration of patriotism and partnership fortitude.

Therefore, with its benefits package, i.e. ability to create employment, skills transfer, capital formation, entrepreneurial skills, technological transfer and efficient managerial techniques FDI rekindles hope for the many Basotho people to whom development was a distant mirage owing to the resource gap evident in Lesotho. Furthermore, FDI has potential of resuscitating Lesotho state legitimacy, restore advantages of sovereignty and eliminate claims of it being susceptible to incorporation into South Africa.

More importantly to achieve its vision 2020 that presupposes a better life for all in 2020. By the year 2020, Lesotho is seen as stable, democratic, an integrated and unified state that will have a strong and a time-honored human capital. Its economy is visualized as a strong one and environment will be well managed. The technology will be highly developed. To actualize the poverty reduction strategy paper (PRSP) which is a generic

⁸⁵ Loc cit,p:76

⁸⁶ Loc cit,p77

⁸⁷ Sandra Wallman, The Modernization of Dependence: A Further Note on Lesotho, Journal of Southern African Studies, vol.3 No.1. (Oct.,1976),pp.102-107

policy that accommodates any project and program that is aimed at attacking national poverty network and finally to achieve the MDGs that among other things, includes halving excessive poverty by 2015 in developing countries is the core.

The Incentives for FDI in Lesotho besides, the foreign trade, quota preferences accords

The FDI that positions itself in Lesotho enjoys the gains of large Southern Africa Customs Union (SACU) market, a versatile labor force, inexpensive lease rates, and unfailing, cheap electricity provisions. These four factors together, build up an investment climate that is favorable for business venture. For instance, Lesotho was described as one of the countries that have cheaper electricity that is at affordable fee rate of US\$ 0.037 for every kW/h; comparing it with other cases in the region where electricity costs in US\$ at 0.076 for each kW/h⁸⁸. It is further argued that; for a year, a lease cost is at US\$ 2.05 for a square meter and this is comparatively the cheapest rate in the sub-Saharan African region studied⁸⁹. In other countries in the region, the standard cost is US\$30.60 for square meter in twelve months.⁹⁰ For the office working space inside most important sites and their environs, the costs rates are also the cheapest at US\$ 11.20 and US\$ 8.40 for each square meter correspondingly. Its membership in the SACU also affords a convenience to investors since one can easily import through South Africa duty free.⁹¹

Lesotho market network

Lesotho apparel industry is one of the largest and most competitive in sub Saharan Africa⁹², exporting to US, Canada, the European Union, Dubai, Qatar, Chile, Japan and Taiwan. Lesotho also exports apparel and ring spun yarn to South Africa, denim to

⁸⁸<http://info.worldbank.org/etools/docs/library/240077/Private%20solutions%20for%20infrastructure%20in%20Lesotho.pdf> , accessed on this date: 09/08/08

⁸⁹<http://info.worldbank.org/etools/docs/library/240077/Private%20solutions%20for%20infrastructure%20in%20Lesotho.pdf>, accessed on this date:09/08/08

⁹⁰<http://info.worldbank.org/etools/docs/library/240077/Private%20solutions%20for%20infrastructure%20in%20Lesotho.pdf>, accessed on this date:09/08/08

⁹¹<http://info.worldbank.org/etools/docs/library/240077/Private%20solutions%20for%20infrastructure%20in%20Lesotho.pdf>, accessed on this date:09/08/08

⁹² Lesotho Review, 2006 Edition (Loc cit)

Botswana, Kenya, Madagascar and Mauritius. The major feature of textile industry in Lesotho is that it is dominated by Taiwan investors. Table 5.0 also exhibits the key players of FDI in Lesotho, the market size, number of total firms in Lesotho, principal market driver and the number of jobs created for the Basotho people. The table 4.0 refers.

Table 4.0, a profile of the Lesotho textile

Industry Feature	Detail
Market size	\$296 million m ² equivalent
Number of firms	35
Ownership structure	Taiwan 65%, Hong Kong 13%, Lesotho 11%, South Africa 5%, Israel 3%, Singapore 3%.
Principal markets	USA 93%, Other 3%
Production characteristics	Mainly CMT
Principal market Driver	AGOA
Principal material input sources	China, South Korea, Taiwan
Employment	Estimated local workers: 44,000 Expatriate staff: 1,076

Source: Global development solutions (2005)

CHAPTER TWO

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Developmental state theory for FDI, Governance and Development Debates

The previous chapter has set the stage for the main arguments of the paper. It has measured the main concepts and has discussed the background within which the focus of the study is. In historical perspective it has provided how Lesotho FDI evolved over time and has provided more details on how FDI governance and development interact. It has discussed both the MFA and AGOA phases in an effort of showing the FDI patterns in these eras and has discussed the economic structure of Lesotho. The chapter further discussed governance types and their capacities in order to contextualize how the governance type and capabilities matter for development acceleration in the developing countries and the pitfalls of adoption of exclusive market enhancing (good governance).

The chapter two consists of two sections. The first section discusses the theoretical framework and the second section consists of literature review. The study adopted developmental state theory. This theoretical approach assumes that the state should direct investment and use of the accumulated capital in order to accelerate national development. This theoretical view illuminates why FDI has a limited impact despite the described patterns and potential of FDI which is an issue central to the main question of the study. The literature review explains views of different scholars and international institutions in relation to the central argument of the study as has been staged in chapter one. It is structured in three categories: global view, regional view and Lesotho context view. These views provide partly a proof of some of the claims that the study has made in the previous chapter and that the study is indeed addressing a substantive argument in existing concepts.

The developmental state theory as propounded by Baissac has revolted the neoclassical approach on economic growth in relation to unsuccessful efforts for economic development in developing countries⁹³. It also posited that the fundamental problem inhibiting economic development in the developing countries is productivity. This theoretical perspective argues to finding a different footing in relation to the chronic economic hardships in developing countries as opposed to the orthodox of the neo-liberals that advocate for uncontrolled exclusive market led economic growth. However it does not dislocate the market from the economic functions but undertakes that the state should complement the market limitations and flaws⁹⁴. The developing countries are characterized with low productivity which can not be easily redressed neither by dependence on natural resources endowments nor FDI comparative advantage⁹⁵.

When the liberal thinking provides that, foreign direct investment is a path to development, the developmental state theory argues that, FDI can lead to development but only when the transnational corporations (TNCs) are neutralized by local business and recipient government guardianship. FDI in the sub-Saharan African countries needs a substantial moderation of governments because market alone does not display enough competence in reconstructing the regional economies for a sustained development. Countries like Japan and others in the East Asia are reported to owe their excellence in economic development to the developmental state approach⁹⁶.

This theory assumes that, a state should have very powerful political abilities so as to be in a position to have an involvement in technological advancement that is vital in productivity improvement. FDI has a potential for a technological transfer only when it has come to the host economy in form of Greenfield investment. This means that the footloose Brownfield FDI is limited for improving productivity in Lesotho because it does not have the sunk costs in production sector.

⁹³ Claude Baissac, Maximising the Developmental Impact of EPZ, A Comparative Perspective in the African Context of Needed Accelerated Growth, Johannesburg ,EPZ Symposium,October 15-16 2003

⁹⁴ Mkhandawire T. Op. Cit. p: 290

⁹⁵ Ibid, p 290

⁹⁶ Ibid, p:291

The exclusive market oriented assumption for development in the sub-Saharan African countries does not dovetail with the developmental state theory point of view. The African leaders have submitted to the exclusive market led economies preferred by IFIs, which are cynical about efficiencies of the state involvement for regional economic development⁹⁷. This approach has compromised development process in the region so much that some scholars argue that the leaders of sub-Saharan Africa are not part of the solution of development problems in their region but constitute bigger percentage of such problems⁹⁸.

The cases where the state interference led to problems do not justify failure of the state⁹⁹. This means that, an investigative approach of the state capabilities in cases where it failed and succeeded would have facilitated for a selective draw of state capabilities. There is no hope for a developing country that basks in short term reflected glory of the free trade and neoclassical redistributive efficacies of uncontrolled market¹⁰⁰.

The productivity benefits don not have their roots in market dealings, but they are a product of growth enhancing governance. The governance that has been carefully matched with relevant capacities and strategies to effectively organize factors of production for better improvement in production and effective distribution of resources to the functioning sectors of the economy¹⁰¹.

The developmental state theory deems that investment potential is contingent on the capabilities of the host government. In instances of the weak states, the FDI dominates in the host country and eventually eclipse the local business while with stronger governments it plays a vital role in improving the domestic enterprise technologies.¹⁰²

⁹⁷ Balefi Tsie, States and Markets in the Southern African Development Community (SADC) Beyond the Neo-Liberal Paradigm, Journal of African Studies, Vol.22 No.1, Special Issue: State and Development, (Mar.,1996) pp.75-98

⁹⁸ Robert Jackson and George Sørensen: 2003, Introduction to International Relations, Theories and Approaches, New York: Oxford Press.

⁹⁹ Ibid, p: 209

¹⁰⁰ Baissac C. Op. Cit. p:1

¹⁰¹ Loc cit,p:1

¹⁰² Ibid, p: 20

The syndrome that was cultivated by the pre-colonial politico-cultural predispositions supporting clientelist, patrimonial rentier and crony state¹⁰³ has not only weakened governments in Africa but also paralyzed regional development. The position of the modern mercantilist school of thought that subscribes to the strong economy and well-built state aspires to developing strategies for national wealth in a perspective of eventually increasing the international competitiveness and development¹⁰⁴. The state in developmental state view should have ability to amass resources for the building up of well-off people through equitable distribution of wealth¹⁰⁵. The state should be able to free the people from the unspeakable poverty trap and exploitation by the economic elites who normally stand opposed to empowerment and pro-poor policies¹⁰⁶.

The developmental state perspective considers that political leaders and technocratic chief administrators should have commitment and ability to implement public developmental policies for the achievement of accelerated development and distribution of resources¹⁰⁷.

Literature Review

Global view

According to UNCTAD the net effect of FDI on host countries' economies is by and large remarkable¹⁰⁸. The effectiveness and efficiency of service in industries have been significant for overall competitiveness of economies; this means that their capacity to improve human dignity on a continued basis. In addition the enhanced circumstances for the proviso of important consumer services such as: education, health, water and

¹⁰³ Joan M.Nelson, Economic Crisis and Policy Choice: The politics of Adjustment in the Third World, 1990 Princeton: Prince Up.

¹⁰⁴ Jonathan Holslag, China New Mercantalism in Central Africa, www.usos-be/download.aspx?c=*USOS&n=U26818ct=431418c=106252, accessed on this date: 01st/July/2008.

¹⁰⁵ Ibid, p:4

¹⁰⁶ Leftwich Adrian, Governance, Democracy and Development in the Third World, Third World Quarterly, Vol.14.No.3 Democratisation in the Third World, 1993,pp 605-624

¹⁰⁷ Ibid,pp:620

¹⁰⁸ UNCTAD World Investment Report, New York, Geneva, 2004.

sanitation directly make a payment to betterment of livelihood values as well as human resources.

Dunning contented that, the amalgamation of economic development, cultural values and dimension, resource and technical competence, organizational effectiveness, political principles, worldwide participation and economic proficiency are aspects that factor in appraisal of FDI usefulness¹⁰⁹. At the same time as it adds value to a country's productive assets, FDI concurrently may tenaciously bog down the country into a prototype of economic interdependence which its costs and benefits are merely pronounced afterwards. FDI convey a means of life from the investing country to the host economy and reinforces the economic array of which in it, there is a fraction of arrangements that may not necessarily be beneficial to the host country. The effects of M&A investment are poles apart from Greenfield investment; so as those coming up from an Investment by well-known and incorporated multi-national enterprises (MNEs) are not similar to a new medium sized Investment.

Stieglitz also argued that, lots of the multinationals have not done enough to improve the working circumstances in the developing countries. Only gradually have they come to realize the potential and experiences that they previously had. Provision of improved working conditions may in point of fact augment worker efficiency¹¹⁰.

Moreover, such investments have other unfavorable impact and over and over again do not prop up development. The income from the mining concessions can be precious but development is transformation of people lives. FDI sometimes lead to a phenomenon dubbed 'Dutch' disease. The inflow of the foreign capital results in inexpensive imports and costly exports and that have got harmful bearing on development.

¹⁰⁹ Dunning 2002, global capitalism, FDI and competitiveness, USA

¹¹⁰ Stiglitz 2002, Globalization and its Discontents, Colombia University, USA

Nunnenkamp disputed that, the developing economies are not capable of distributing resources effectively. This affects FDI potential in poverty reduction as stipulated by the neo-classical trade theory¹¹¹. The gap between the rich and the poor possibly will rise even in situations where FDI does not expand to skillful industrial based transformation. Coincidentally, over time, skilled elites of the labor force get a better windfall of FDI more than unskilled workers.

Regional view of FDI

Dupasquier submitted that, in recent times FDI has been incorporated by African leaders as one of the indispensable aspects of African development. This is after a long resistance, and reservations that FDI possibly would weaken political sovereignty, would do better than local business and drive it into insolvency. FDI was mainly in natural resources sector, it was viewed as the main culprit of ecological degradation which did not have economic benefits.¹¹²

Johan Dahl endorsed claims that in the SADC region, there association between inflowing FDI and of FDI stocks per capita indicates a very frail rapport. The majority of SADC countries have a propensity to maintain their economic growth higher than population growth in the period of 1990s¹¹³. This enabled them to have a good FDI per capita besides Angola, Congo-DRC, South Africa and Zambia where FDI stocks per capita remained below expectation. In Lesotho Mauritius and Seychelles, the economic growth in relation to population growth was good, it has been between three and five percent in the period of 1990s.

Again, the growth enhancing ability of FDI is contingent on the chosen form of FDI. It is argued that the impact FDI inflow on variables such as technology and physical capital is likely to be different between Greenfield and Brownfield (M&A) FDI. The former has

¹¹¹ P. Nunnenkamp, R. Schweickert and M. Wiebelt, Kiel Institute World Economy, presentation at the annual congress of Verein für Sociopolitical: Research Committee Development Economists, 29-30 June 2007.

¹¹² Dupasquier C. and Osakwe P. FDI in Africa: Performance, Challenges and Responsibilities, Journal of the Asian Economies (17,2), pp,241-260, 2006

¹¹³ Johan Dahl J.2002, Incentives for FDI; case of SADC 1990, Namibia

capacity to enlarge in the host country (the sunk costs) stock of physical assets that are significant particularly in emerging economies that are predisposed to be resource scarce. The latter FDI type, transfer over the possession of physical assets of production to the foreign investor consequently, gives opportunity to asset stripping.

Lesotho Context

Lall S. articulated that, FDI has shaped employment and exports for Lesotho, more than a few facets offset these benefits. Foreign firms depend a great deal on foreigners. In 2001, there were about 1076 expatriates in garments industry mostly originating from Taiwan and China. At the higher-ranking and decision-making levels, there were hardly any inexperienced Basotho, the only exception being personnel relations. At the production level, most administrators were shop floor staff from mainland China who could not speak Sesotho and were scarcely capable in English. Their dealings with workers were poor and labor relations were exacerbated by noteworthy differences in indigenous customs and work ethic, which neither side was skilled to rise above such a bicker¹¹⁴.

Yet again, Lesotho has done very well in attracting FDI and in relation to per capita FDI accumulation is well on top of the average for LDCs. FDI flow into export based industries accounted for the bulk of most investments which is, in the sub-Saharan region, accounts for 90 percent of the overall investment.

Furthermore, Mthente made the following observations and empirical findings about FDI in Lesotho:

- The international ordering process tolerates a small space for backward linkages to the Basotho-owned small medium and micro enterprises (SMMEs), as procurement is directed by business global sourcing tactics. TNCs in Lesotho are export oriented and function as ‘full package’ exporters to the USA market. As a

¹¹⁴ Sanjaya Lall, FDI, AGOA and Manufactured Export, From A Landlocked, Least Developed African Economy: Lesotho, University of Oxford, October, 2003

result, it is not easy to build up a convincing business case to exhibit to the TNCs the prospects these linkages will bring them.

- Despite TNCs not being able to identify enormous benefits from linkages with local SMMEs, as well as their concerns regarding corporate management skills, capacity and entrepreneurial mind-set amongst domestic small firms almost all TNCs were ready to contribute in pilot linkage program.
- The pilot was contingent on the TNCs representatives' appreciation of the buildings and grounds of local business in view of assessing possibility of the linkage program that focuses on and includes management capabilities, technical skills, improving capacity and efficiency. The installing of quality and controls, meeting compliance concerns, and investing in premises and machinery become integral part of the program as well.
- The foreign direct investors from South Africa are willing to adopt the policies that will enable sub-contracting linkages with SMMEs. A number of them has by now started CMT operations in Lesotho. Sub-contracting is on the other hand conditional on SMMEs' competence, quality standards control, and consistency of which the Lesotho SMMEs go wanting¹¹⁵.

Clean clothes campaign network also reports stated that, most of the people interviewed mentioned that, a positive part in all this is that, the employment rate has risen, which is a good news in a country like Lesotho with a high levels of unemployment. It would be good however to have a look at long term benefits of actual investment in Lesotho. Although it is disreputable that trade agreement, allegedly proposed to bring benefits to the world least developed countries are in fact

¹¹⁵ Mthente Research and Consulting Services, Exploring linkages Between Basotho Owned Garment Firms and Larger Manufacturers in Lesotho Clothing and Textile Sector, Basotho Enterprise Development Corporations (BEDCO) September 2007

resulting few benefits to them and bringing most of the profits to the multinational producing companies from all over the world¹¹⁶.

Besides, the report¹¹⁷ further stipulated that, earnings of clothing workers are not adequate as an income for living, and far less than a remuneration required to afford for fundamental needs. Earnings are every so often even less than the minimum wage.

The wages are not enough to cover domestic needs, and support members of the family. Some children do not go to school, because the money is not enough to pay for school essentials. For them to make end meet they need at least 1000 Maluti to make ends meet and this is nearly double what they currently earn. Eight people live off Juliette's salary (her parents and five children). She is the sole provider for her family. She can only afford for two of her children to attend school. The family lives in one room that is divided by a curtain. What Juliette makes is simply not enough to meet her family's needs.¹¹⁸

UNCTAD also pointed out though the FDI performance in Lesotho could not be rated as excellent since there were still other adjacent countries that could have been by far, better than Lesotho in FDI performance in both size and growth. It was better to describe Lesotho's FDI as commendable considering the fact that it is to head and shoulders above many LDCs. For instance, Lesotho attained average annual FDI inflows of US\$15 at some point in 1996-2000 in contrast with US\$6 for other LDCs, for the sake of comparison.

¹¹⁶ Clean Clothes Campaign Network, www.Cleanclothes.org/ftp/Africa-Report. The research was conducted by the centre for research on Multinational corporations in 2002 and was documented by Luke Brindle.

¹¹⁷ www.Cleanclothes.org/ftp/Africa-Report, accessed on the 09/08/08

¹¹⁸ www.Cleanclothes.org/ftp/Africa-Report, accessed on the 09/08/08

Chapter three

Data Analysis

The main aim of this chapter is to test empirically the assertions that have been made in the previous chapters in relation to Lesotho's performance in attraction of inward FDI comparatively to its counterparts. This chapter partly tests the hypothesis that FDI performance does not synchronize with development process in Lesotho.

This chapter uses the scatter plot technique for explaining trends in FDI inflow in different eras of MFA and AGOA. The chapter first of all divulge into the empirical world by analyzing trends of FDI inflow over the period of fifteen years. It explains the events that contributed into both the spurt and slumps of Lesotho's FDI. It further analyses the trend of GDP per capita and similarly explains series of events that account for such patterns in Lesotho GDP per capita.

Secondly, it compares Lesotho with its counterparts in the sub-Saharan African region. Only forty-three countries from this region have been considered for the purpose of the paper however countries that have been extensively included in the comparison analysis include Mozambique, Botswana and Liberia because of a limited space and time. For the intentions of the paper, a bivariate scatter plot of FDI and GDP per capita does not only test association between the two variables per se but also assist in comparison analysis for seeing how Lesotho country performs in one variable and the other in comparison with other countries in the region. In the scatter plot only Lesotho, Mozambique, Botswana and Equatorial Guinea have been labeled owing to space constraints. Other countries have been labeled and appear as dots.

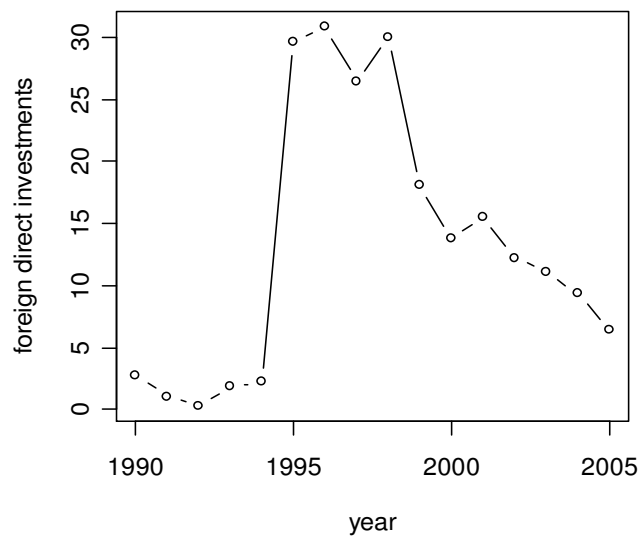
The univariate scatter plot of HDI, further displays the levels of human development indices of those countries that have equal footing in World Bank standard for income classification of countries. This chapter therefore, reveals that, Lesotho indeed is more successful than other countries regarding FDI inflow but however exposes some diminishing returns. This is in line with arguments made in earlier chapters that

developing countries have distributional inefficiencies. These inefficiencies have been attributed to the governance type in the previous chapters.

Analysis of FDI trend for Lesotho

Though the Lomé convention was already favoring investors based in Lesotho, low level of FDI in 1990 was apparently declining in 1991-1992 in figure 2.0. The contraction of FDI around this period was due to a series of events: The riots of May 1991 that claimed 38 lives and caused a destruction that was approximated at £400 million acted as a major deterrent for FDI inflow into Lesotho. During the same time, there was a political unrest, authoritarianism and government weak administrative capacity¹¹⁹.

Figure 2.0



(Source: World Bank)

All these factors, together with the then industrial policy that was highly controversial might have contributed in the dropping of FDI inflow. However, 1990 to 1992 events took place in the eve of popular democracy in Lesotho.

¹¹⁹ Carolyn Baylites and Caroline Wright, Female Labor In the Textile and Clothing Industry of Lesotho, *African Affairs*, vol. 92, no. 369, Oct 1993, pp 577-591, Oxford University Press.

In 1993 and afterwards saw better stocks of FDI. As those who are proponents of popular democracy argue that, investors prefer democratic regimes as they tend to give more assurance of property rights, they are more committed to provision of stability and are more credible; in Lesotho there was a political shift of political transformation to democracy in 1993 and that boosted the FDI inflow. Furthermore, 2000 show the success of the MFA between Lesotho and USA and the dynamic AGOA in stimulating foreign direct investment in Lesotho.

However, a steep fall of FDI in 1998 was brought on by the political tensions and upheaval that eventually torched businesses and looting of goods. This was a massive loss and tragedy for foreign investors as this caused them either permanent relocation from Lesotho or an extensive reconstruction of such businesses. The downwards dive around 2003 to 2004, in part was due to the MFA expiration which was due to happen 31st December 2004. The implications of the termination of MFA amongst other things included a sharp downturn in exports and as a result low foreign exchange earnings. It also meant that Lesotho was due to face stiff competition from other inexpensive manufacturers such as China, Pakistan and India¹²⁰. Therefore, since some other investors were coming from China, there was no need anymore for them to produce from Lesotho. Since the exports to USA market are at fixed rate for a certain time, i.e. if Wal-Mart and K-mart in USA have gone into business agreement. For instance if 1tonne of Jeans costs \$5000.00 in that business year, that agreed amount will not change no matter what happens in the international market, the price remains fixed. Even if the one of the two currencies involved (Dollar and Rand/Maluti) looses or appreciates value, the price remains will not inelastic to the currency changes.

So in Lesotho's case, if the Rand looses value against the Dollar that means Investors exporting to US market from Lesotho will have more of their earnings. The FDI inflow into Lesotho will also rise, but in the event that the Rand appreciates value against the US dollar, the scenario creates a vice versa situation to Investors. Therefore, fluctuations of US dollar and value appreciation of South African Rand have contributed to the

¹²⁰ Central Bank of Lesotho, Economic Review, Maseru, April 2005

downward leap of FDI in Lesotho. Around 2005 and 2006 the South African Rand was at its optimum strength against US dollar. The finding regarding this FDI trend is also conforming to the report by SADC. “A small drop in exports in 2003 is due to the MFA coming to an end on 31 December 2004 which have reduced Lesotho preferences in the US market and resulted in drop in clothing exports.”¹²¹ Again Lesotho budget speech for the period 2007/2008 explained reasons that caused a down turn in 2005. “FDI stalled in 2005 as a result of a strong competition from Asia and appreciation of Rand/Loti, jobs fell from 55,000 to about 35,000 before recovering towards the end of the year”.¹²²

Analysis of economic trend for Lesotho

The GDP per capita in Lesotho has been going through ups and downs. In the 1990s the growth was at the rate of 6% per annum though it staggered to 3% on average before it could pitch 7% in 2007. It has been inconsistent for number of reasons: the growing shocks that incorporate considerable real exchange of the Rand to which the Loti is attached, dropping of the remittances from South Africa and the swinging trade terms.¹²³

However, the Lesotho export led growth was afflicted with the dynamics of inequalities. It is still not convincing as to whether the cumulative GDP per capita that showed an increase on annual basis, is a true reflection of what is happening on the ground at the grassroots level. Prior studies show that, resources in Lesotho are benefiting the few rich people who form a small fraction of the total population of 1, 8 million.¹²⁴

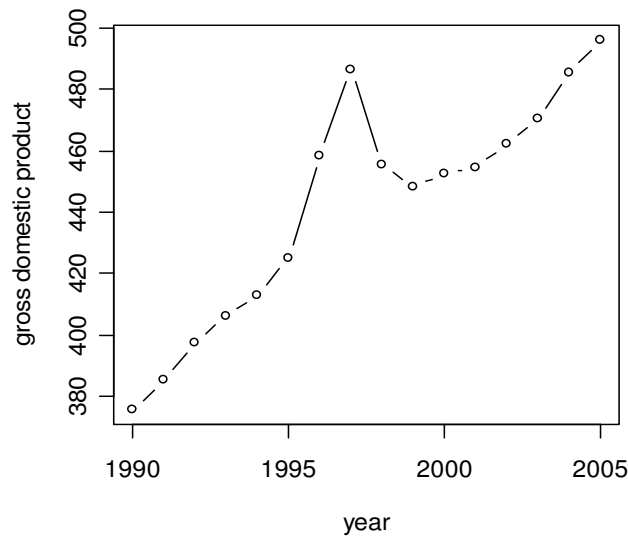
¹²¹ Lesotho Trade Structure and Patterns, <http://www.sadctrade.org/files/TPR%20Lesotho.pdf>, accessed on this date:25/July/08

¹²² Timothy Thahane, *Budget Speech to Parliament for 2007/2008 Fiscal Year*, Maseru, 30 March, 2007

¹²³ IMF Country Report No.08/135, April 2008, The Kingdom of Lesotho, selected Issues and Statistical Appendix, Washington DC

¹²⁴ Debora Wason and David Hall, *Poverty in Lesotho 1993-2002*, www.chronicpoverty.org/resources/working_papers.htm

Figure 2.1



The GDP per capita trend shows an increase over time although the observation reveals a real fluctuation in 1998. The finding is very consistent with the report by Nomahlabi Shezi. This report stated that, the political instability negatively impacted on economic growth. However in 2002 the positive growth began to be visible because of growth recovery happened as a result of textile industry that around the time formed bigger part of FDI in Lesotho¹²⁵. The LHWP royalties and SACU transfers also have played a major role for growth recovery. This graph for GDP per capita implies that, the economic growth was positively impacting on lives of the Basotho people over time. It is however important to highlight that the trend is inconsistent with Lesotho Gini coefficient of 2002/2003.¹²⁶ The Gini coefficient which was at 0.52 in 2002 confirms that, the inequality between the rich and the poor was still high. Again the country specific study made by UNCTAD in 2004 in Lesotho on investment policy also confirms that DGP per capita in Lesotho was impacted negatively in 1998¹²⁷. The growth patterns as seen on figure 2.1 gives a wrong impression because the SACU transfers and LHWP royalties

¹²⁵ Nomahlabi Shezi, High Impact Innovation, http://portal.unesco.org/education/en/files/55616/11999786335the_kingdom_of_lesotho.pdf/THE%2BKINGDOM%2BOF%2BLESOETHO.pdf, accessed on this date:25/July/08

¹²⁶ Bureau of Statistics, 2002/2003 and 1994/1995, Household Budget Survey, analytical Report, volume1, November 2006

¹²⁷ UNCTAD, Investment Policy Review Lesotho, UN 2004

that (technically) by definition do not form part of FDI have directly influenced on the GDP per capita yet they are beyond the scope of the study owing to the model constraints.

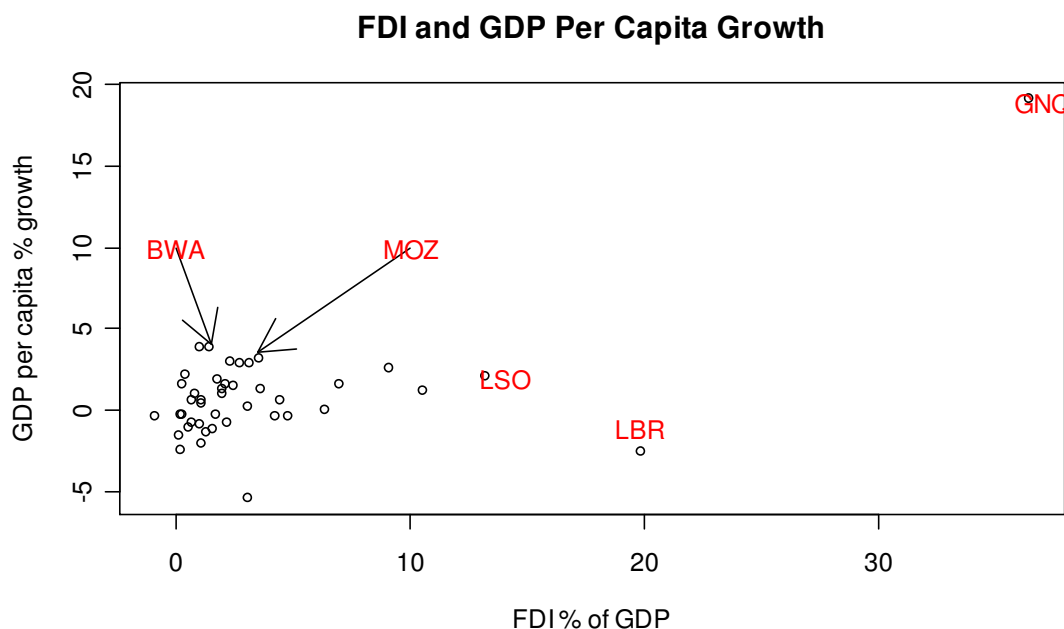
Lesotho FDI and per Capita GDP in comparison with other countries in the sub-Saharan Countries

The scarcity of information with regard to trading partners, investment prospects and scanty inducements to attract FDI inflows contributed to the meager investment inflows into Africa.¹²⁸ Nonetheless, inspired by the preferential market access through AGOA, Lesotho is one of the few countries that have been successful in attracting FDI to their own economies in large stocks.

Figure 2.2 scatter plots the sub-Saharan African countries and this will give an indication as to how they rank comparatively. This scatter-plot confirms claims that Lesotho has been doing well comparatively in the context of FDI attraction after Equatorial Guinea and Liberia. The former (Equatorial Guinea) is oil led economy and the latter (Liberia) has some traces of oil and gold but mostly is endowed with timber respectively. The rest of the countries have clustered together, including Botswana and Mozambique, showing no much deviation from each other in terms of FDI inflow.

¹²⁸ Martin Visser and Trudi Hartzenberg, African Development and Poverty Reduction; the micro and macro linkages, 13- 15 October 2004, South Africa

Figure 2.2



Though Lesotho seems to hover above its neighboring countries in the region regarding inward FDI, its international trade policy is indexed on SACU trade policy. However, the levels of FDI attest to Lesotho's commitment in participating in the international trade and taking full advantage of the preferential market access both in European Union and United States. Figure 2.2 is in conformity with claims made earlier by some researchers and international organizations. MIGA described Lesotho in similar terms as Lall, World Bank and LNDC: "Lesotho is the Africa's leading exporter of apparel to the US."¹²⁹

GDP per capita in the sub-Saharan African countries

As we have seen elsewhere (in table 2.0) the extent to which investment matters for some economies in the sub-Saharan Africa (especially Lesotho) and have also seen in figure 3.2 that Lesotho inward FDI level has located it as one of the best after Equatorial Guinea and Liberia in relation to inward FDI. Being the African leading exporter of apparel to US has acted as a springboard for Lesotho's description as being one of the best countries

¹²⁹ MIGA *Op. Cit.* pp:8

in FDI inflow.¹³⁰ In contrast, figure 2.2 reveals that in relation to GDP per capita, Lesotho comparatively shows a sluggish progress. This finding is consistent with what IMF table 3.0 has unveiled: growth is not synchronizing with FDI performance in the situation Lesotho. This table (3.0) further indicated that countries like Mozambique, Swaziland and Mauritius have a better real GDP growth and figure 2.2 confirms that Lesotho slacks in economic performance relatively to other countries in the sub-Saharan region. Figure 2.2 also in general shows that sub-Saharan countries are at almost the same lower levels in GDP per capita with few exceptions. Lesotho is amongst the countries that have low per capita GDP although that is a cross cutting characteristics with the exception of the few countries such Mozambique, Botswana and Mauritius that seem to be performing well economically.

The disparities and variations amongst the sub-Saharan African countries in per capita GDP represent a substantial divergence in development levels in the member countries, as we have seen in table 2.0 that the whole regional growth rate was at 3.2 percent. Currently, the literature points to growth rate of 6.5% in the region in 2007 to 2008 but with a yawning economic gap between the oil exporters and oil importing countries. Hence Equatorial Guinea remains as an outlier.¹³¹

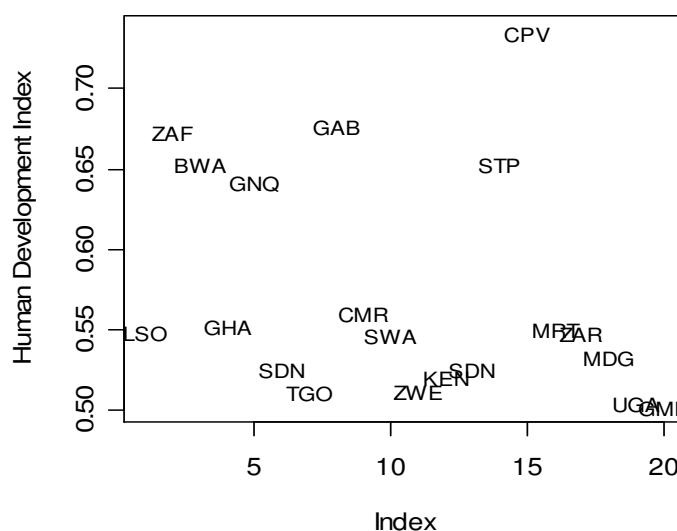
Lesotho HDI in juxtaposition with selected sub-Saharan African Countries

Lesotho human development index in the following scatter plot dipped and in figure 2.3 shows its relative HDI position to other sub-Saharan African countries that are also in the category of Lower Middle Income in accordance with UNDP categorization. In this figure the higher the country the better is its HDI.

¹³⁰ Loc cit, p9

¹³¹ South Africa. Info, <http://www.southafrica.info/africa/imfro-150408.htm>, accessed on this date: 26/06/08

Figure 2.3



There seems to be a wide inequality amongst nations of the sub-Saharan Africa region, with Lesotho ranking at almost lowest levels of the scatter plot. This reflects the pattern of diverging development in the sub-Saharan countries. Though these selected countries belong in the same category of Lower Middle income, they are however looking different in distribution of wealth. Cape Verde and Seychelles (though the latter is not selected because it is not in the category of Lower Middle Income) were the only exception when the other sub-Saharan countries were classified in the bottom fifty to sixty with regard to human development¹³². The overall picture is that there are significant sectors of population which are still under a complete income inequality in the region.

We were amazed to learn that despite so many aid efforts on behalf of programs like, Feed the Children and Product (RED) sub-Saharan Africa remains the only region in the

¹³² <http://ssa.monokuro.net/hdi.php>, accessed on this date: 26/June/2008

world in which human development has declined. The most reason why sub-Saharan Africa is the only region in decline is because of its weak government¹³³.

The scatter plot enables us to figure out how each country is organized in relation to capacitating itself towards preventive and protective medicinal capabilities. Lesotho's Patient Doctor Ratio of 20,000:1¹³⁴ compared to 2,500:1 in Botswana, 1,300:1 in South Africa, 8,300:1 in Zambia speaks volumes on how poor distribution of resources is and why life expectancy has gone down to barely 34.4 years¹³⁵. The Patient Doctor ratio conforms to the finding made by Deborah Wason and David Hall who argued that "the 20000:1 ratio, is double that for SADC region and health sector share of government resources steadily declined during the last five years of the last century"¹³⁶.

Though Lesotho has high literacy rate and enrolment, it unfortunately has high drop out rate that offset the benefit of high literacy and enrolment. The young children quit school at the early stage without capabilities and skills that can sustain their quality of lives.

¹³³ Ibid,pp:3

¹³⁴ http://strangemaps.files.wordpress.com/2007/10/276540-poster594x420mm_eng.jpg, accessed on this date: 27/June/2008.

¹³⁵ <http://www.soulcity.org.za/programmes/beyond-south-africa/lesotho>, accessed on this date:26/June/2008

¹³⁶ <http://ssa.monokuro.net/hdi.php>, accessed on this date: 26/June/2008

Chapter four

The Bilateral Commission for Cooperation between Lesotho and South Africa (JBCC)

The previous chapter was tested how both the independent (FDI) and dependent (development) variables relate to each other. The comparative analysis has unveiled that the performance of the two variables, in the case of Lesotho, does not corroborate with neo-classical view that FDI inflow lead to accelerated economic development. This chapter verifies the assertions that have been made in view that, some international NGOs left Lesotho because of low implementation capacity¹³⁷. This chapter will give evidence that the exclusive good governance is characterized with low capacity in implementation of economic policy and as a result does not boost development process, no matter how much of the resources are pumped in a certain country.

To assess this governance capability for implementation of economic policy the chapter adopts a comparative analysis of the bilateral commissions between Lesotho and South Africa (JBCC) and Mozambique and South Africa (JPCC).

The two Countries signed a bilateral commission in 19th April 2001. This was during the official visit to the Kingdom of Lesotho by President Mbeki. The agreement committed the two countries to a strategic partnership and the key objective was to assist Lesotho to graduate from the stage of the least developing countries (LDCs) to a developing country status within the period of five years.

Pavlic B. and others argue that, many developing countries are engaged in number of integration and cooperation. However these cooperation initiatives differ in scale due to a myriad of reasons; (a) number of countries that are involved, (b) objectives of integration process, (c) focus and strength of amalgamation, (d) technical approach of cooperation i.e. either synchronization of trade and industrial policy or market oriented approach and

¹³⁷ Love R. Op. Cit.pp:77

lastly, the competences to actualize the achievement of the projected objectives that are approved. Some countries' integration may kick-start with great vision but accomplishes only a few of their objectives or at times completely fails. Some begin steadily and slowly achieve their goals. However, others start with very narrow vision but increasingly achieve to the booming end.¹³⁸

The regional economic cooperation in the SADC region is based on the two primary fundamentals. First, the need to improve cooperation amongst states, secondly, enhanced trade and investment flows between countries at different levels of development will foster quick regional development through accelerated industrialization processes.¹³⁹

However, the period between 2001 and 2005 did not bring much of success. There were no deliverables of projected goals hence a task team was established in 2004 with the mandate of monitoring and guiding the accelerated implementation of the JBCC.

Despite the efforts committed for implementation of JBCC, there were underlying factors that undermined progress. For instance, some misunderstandings that were related to the nature of the strategic partnership as to whether the commission was a donor /recipient or mutually beneficial partnership bogged down progress. The insufficient rule based on public private interface, administrative barriers, business environment regarded as restrictive and lack of projected Work Plans to guide the attainment of JBCC objectives. There was no research community specialized unit for interdisciplinary areas for the attraction of the critical mass of human and financial resources.

One of the objectives was to strategically assign officials with facilitative role to oversee continuity and implementation; monitoring and guiding of activities; report to government Principal Secretaries on progress and to ensure that the JBCC was compatible with the national vision of Lesotho and PRSP documents focusing on:

¹³⁸ Pavlič B. Raúl Uranga, Boris Cizelj and Marjan Svetličič 1983, the Challenges of South - South Cooperation, Boulder Westview, UK.

¹³⁹ Erwin A. Parliamentary media briefing, Cape Town 20, Sept. 2001

employment creation, food security and infrastructure, deepening democracy and good governance, Safety and security, access to health services, increasing human resource capacity, managing and conserving the environment and improve public service delivery.

The two countries further agreed on proposal to accelerate JBCC process. A document called “Accelerated Implementation Strategy for JBCC” was adopted. The document puts emphasis on bank-ability of projects. This means that projects had to be economically and financially sustainable in order to qualify for assistance. The document also set out different types of projects, ranging from purely government funded, and PPP and purely privately funded projects.

In 2005, the two countries assessed the adequacy of the implementation strategies contained in the document, as well as the extent to which projects presented by Lesotho were within the scope of the major objective of assisting Lesotho to graduate from the category of LDCs. Crucial gaps were identified and analyzed, and it was agreed that identified projects must be aligned to the graduation criteria.

JBCC attested to a mutual political commitment of the two states to cooperate with each other, to even further deepen the relations. For the easy achievement of this purpose clusters were instituted:

A) Foreign Affairs Cluster

The main focus of this cluster was to organize the official visit of the Prime Minister of Lesotho to South Africa on the 19 June 2007. The cluster also mandated to oversee that under the JBCC all avenues are explored to ensure that Lesotho benefits economically from the 2010 FIFA World Cup.

B) Stability and Security Cluster

The Justice sector commissioned a cluster to work on Bilateral Agreement on Reciprocal (civil orders) Service of process between the two Countries. It was further tasked to ensure that the two Countries continue to work together on the program of

capacity -building that had already started at the Justice College in the Republic. Furthermore the Justice sector was assigned to facilitate reciprocity of Legal Counsel and implementation of Mutual Legal Assistance Treaty in both Countries. Progress report was to be reported during the official visit of Lesotho Prime Minister in June 2007. Under this cluster, there were two sub-clusters.

i) Police

This was aimed at prevention of cross-border crime, repatriation of stolen livestock and cars were deemed important for both countries. Currently there is a problem in relation to the repatriation of stolen cars.

ii) Defense

Areas of cooperation in this sector include Training of Lesotho Defense Force (LDF) students in South Africa, Registration of LDF Military Health Personnel with the SA Health Profession Council, refurbishment of Lesotho military vehicles, Referrals of LDF patients to SA military hospital and Development of the Oxbow Military Base in Lesotho. Progress had to be presented at the end of May 2007.

Economic Cluster

Trade and Industry cluster prioritizes spatial development initiatives (SDIs).

Both parties have agreed to take one of the SDIs to Tele in Lesotho. The plan to launch the Maluti Drakensberg Route and Maluti Drakensberg experience by publishing the book 'Indanba' during the tourism promotion in Durban is in progress. The main objectives of the launch are to market and profile the MDPT as a major tourist destination and to extend the existing Maloti Route to include Kwa-Zulu Natal Province. The establishment of the Route is intended to create a center of attention of tourists to the area of mutual benefit for the two states. This is part of the broader tourism development strategy that identifies major tourist development nodes with the aim of attracting investment in tourist facilities, particularly in Lesotho.

The Sani Pass Border Project,

The relocation of the Sani-Pass Border Post, upgrading of the road from Himveille on the South African side through the border post to Mokhotlong on the Lesotho side were

identified as important projects within the MDTP. The South African Department of Environmental Affairs and Tourism (DEAT), through its Social Responsibility Program has provided R52million for relocation of Border Post While South African Department of Transport allocated R85million for upgrading of the Road from Himeille to Sani Top on the South African side of the Border Post.

Commencement of construction for upgrading of the road from Sani Top to Mokhotlong on the Lesotho side is dependent upon a positive consideration of funding request by Lesotho Government (through Ministry of Tourism, Environment and Culture) African Renaissance Fund is anticipated to have consideration on this matter.

Hydrological Project

In 2003, the African Renaissance Fund allocated R5, 301,660 for a project. This helped to improve hydrological flow measuring stations in Lesotho. Sixteen stations have been already installed for 1; 7million. The project has been delayed by waiting for the awarding of a new contract for the procurement of hydrological equipment by South Africa.

Metolong Dam project and Lowlands Water Supply Project

The Metolong has been added to the list of projects as a special vehicle to show practical progress with the JBCC. The USD 120.74 million Metolong dam is to be constructed in the South of the Phuthiatsana River near the village of Ha-Seeiso. The dam will supply water for domestic, commercial and industrial purposes.

Geo-chemical Mapping Project

The main purpose of this project is to create a geological infrastructure and to stimulate prospecting and exploration. The compilation of geochemical maps will eventually be made. The Council for Geosciences (GSC) in South Africa has agreed to analyze the stream sediment samples.

Road Corridors

The road corridors that connect Lesotho with South Africa through the various provinces are yet to be completed. At Qachas Nek –Matatiele corridor, the Lesotho side completed upgrading of the road. South Africa is yet to start. At Tele-Herschel corridor South Africa is done with road upgrading while Lesotho is not started with Road Works. On the Makhaleng –Zastron corridor Lesotho is done with the Road upgrading and South Africa has not commenced yet.

The Lesotho Rail Link

Under the umbrella of Rail Link Inter-Country Committee, a desk top feasibility study was done by the engineers from Spoornet and Ministry of Transport and Public Works. The project was sold to SADC and NEPAD and the latter adopted it.

Maseru Container Terminal

The Maseru container terminal is one of the most important interfaces between the two states as far as trade and investment are concerned. Moshoeshe1 International Airport (MIA) was also regarded as important for trade facilitation and regional integration. It holds great potential for regional economic growth and on this note, it has been envisaged that MIA be upgraded for accommodating Cargo and large aircrafts.

Mozambique and South Africa also have Joint Permanent Commission for Cooperation (JPCC) of the same scale with that of Lesotho and South Africa. This forms a benchmark against which we can gauge the how far successful the JBCC implementation vis-à-vis JPCC. The comparison of the two Commissions provides a clear basis of the position that there has been a limited implementation regarding Lesotho and South Africa JBCC. South Africa and Mozambique economic cooperation described as the strongest in the SADC region. Perhaps Lesotho and South Africa's JBCC can better be described as the weakest in the region.

South Africa and Mozambique JPCC

Background

The JPCC between South Africa and Mozambique was endorsed by the two states involved¹⁴⁰. Since then to 2005, South Africa and Mozambique had entered into 26 Agreements Protocols as well as memorandum of understandings (MoUs)¹⁴¹. “The close bilateral relations between South Africa and Mozambique are characterized by constant high level of interaction on presidential, ministerial, director-generals, officials as well as at parliamentary level, in all the spheres of cooperation”.¹⁴²

These relations have played a major role in promoting trade, investment, tourism, and security between these two states. South Africa has become a major spring for Mozambique FDI¹⁴³. Alpha Omar reported that, the Mozambique investment promotion centre has indicated that South Africa has scaled up the stocks of FDI into Mozambique in 2005, thus cementing itself as the main foreign investor in that country¹⁴⁴. The total exports by South Africa to Mozambique are valued at R6, 402,557 billion since the period 1994 to 2005 and South Africa imported from Mozambique goods to the value of R199, 292 million in the same period¹⁴⁵.

The trade between the two states has swelled by more than 600%¹⁴⁶. The 40% of the total Mozambique imports come from South Africa and companies from South Africa that have invested in Mozambique play an important role in shaping pattern of exports from Mozambique to South Africa. South African imports from Mozambique have also been significantly augmented¹⁴⁷.

¹⁴⁰ www.polity.org.za/article.php?a_id=21785, accessed on this date, 03/July/2008

¹⁴¹ www.dfa.gov.za/docs/speeches/2005/paha/031.htm, accessed on this date:03/july/2008

¹⁴² <http://www.thepresidency.gov.za/show.asp?type=pr&include=president/pr/2003/pr0826a.htm>, accessed on this date:03/July/2008

¹⁴³ <http://www.info.gov.za/speeches/2008/08041015451001.htm>, accessed on the 03/July/2008

¹⁴⁴ Professor Alpha Omar, Confrontin the Challenges Facing Africa, http://www.dfa.gov.za/departement/report_2005-2006/report50-91.pdf, accessed on the 03/July/2008

¹⁴⁵ <http://www.info.gov.za/speeches/2008/08041015451001.htm>, accessed on this date:03/July/2008

¹⁴⁶ <http://www.info.gov.za/speeches/2008/08041015451001.htm>, accessed on this date:03/July/2008

¹⁴⁷ <http://www.info.gov.za/speeches/2008/08041015451001.htm>, accessed on this date:03/July/2008

Development Projects

The industrial development corporation has been adopted by South Africa as a basic spur for investment in Mozambique. The industrial development supports numerous development projects in Mozambique mainly in infrastructure and in investment in mining and mineral beneficiation.¹⁴⁸

Natural Gas Pipeline Project

The South African Natural Gas Pipeline project successfully started. The pipeline that transports gas from Mozambique to South Africa fills a gap of 120 gJ that South Africa needs for production of electricity. The Mozambique government has a control on 1mn gJ of natural gas per annum. Sasol, a synthetic producing company from South Africa has now invested some \$ 1, 2 billion in Mozambique¹⁴⁹.

Great Limpopo Trans-frontier Park

Important advancements have been made on the other development schemes as part of the R40 million allotted by South Africa for implementation of other projects on Great Limpopo Trans-frontier Park on the South African part. South Africa has the transferred animals from the Kruger national park to the Wildlife Sanctuary in the Limpopo National Park¹⁵⁰.

Mozambique investment in South Africa

Mozambique also has some investments in South Africa, such include the private companies such as; the Portuguese conglomerate, Sonae, bought Sappi-Novo board in 2004 and the Mpulanga Investment Initiative that gives an optimism of enlargement of investment in that province. A huge Portuguese exporter of cork is also available at Montague Park; Amorim Cork South Africa PTY.¹⁵¹

¹⁴⁸ Pahad A. 30 October, 2005, fourth session on South Africa and Mozambique Joint Permanent Commission for Cooperation.

¹⁴⁹ <http://www.un.org/ecosocdev/geninfo/afrec/vol21no3/213-pipeline.html>, accessed on this date:03/July/2008.

¹⁵⁰ <http://www.thepresidency.gov.za/show.asp?type=pr&include=president/pr/2003/pr0820.htm>, accessed on this date:03/July/2008

¹⁵¹ A. Pahad, <http://www.dfa.gov.za/docs/2005/port1117.htm>, accessed on this date: 03/July/2008

The nation owned Bank of Mozambique operates in South Africa. BANCO PRIVADO is not a state Bank but is a private owned Mozambique Bank operating from South Africa as well and has got a branch in Johannesburg. BANIF Bank also commands some investments in South Africa and has a branch in Bruma.¹⁵²

There is also Portuguese Cement Company that also competes in South African marketplace with its counterpart Natal Portland Cement Company and has got the factories: in Simuma, Durban and New Castle. Its production capacity ranges in 1million/ton per annum and commands 11% of the total market. Pestana chain is one of the good Portuguese hotel chains that run a hotel in Melane Kruger Park.¹⁵³

The other important investments from South Africa in Mozambique are: US\$ 50 million investment by SAB Miller in beer factories in Maputo and Beira, US\$ 63 million by Illovo Sugar in Maragra sugar mill, Xinavane US\$ 22million and US\$ 15, 5 million investments by McCormack to build Matola Plaza.¹⁵⁴

¹⁵² Ibid,pp:1

¹⁵³ Ibid,pp:1

¹⁵⁴ Thabo Mbeki, Address to Armando Emilio, 13 November, 2005, Pretoria.

Chapter five

Observations and Discussions of the evidence

The evidence illustrates that Lesotho has been very effective in terms of exploiting trade privileges as afforded under MFA and AGOA respectively. It has been able to use both MFA and AGOA to its advantage successfully for inward FDI enlargement. It is however important to notice that Lesotho used MFA effectively only at its late stages towards its expiration and this was due to its economic policy that was vulnerable in post colonial regime period. Wellings explains that, during the MFA early stages Lesotho had adopted a policy reflective of its economic vulnerability towards South Africa: "...a tacit agreement had existed between the two countries whereby Lesotho had promised not to develop competitors to the established South African concerns"¹⁵⁵ and that "The possible transformation of Lesotho from labor reserve to export platform was a scenario to be resisted by Pretoria and South African Capital"¹⁵⁶. Given these circumstances, it is comprehensible why Lesotho could not exploit its niche in the international market and its venture into industrial arena was curbed at its initial stage.

Though figure 3.2 shows that in the region there is a meaningful FDI inflow on average, Lesotho seemed to have performed better than other major apparel exporters to US market under AGOA such as, Kenya, Madagascar, Mauritius, South Africa and Swaziland. Our point of departure with Han Joon Chang has been that FDI is a capital formation; it improves both physical and human capital accumulation¹⁵⁷. It veritably, provides governments with revenue through corporate tax, and as result swells the national cake.

It is nonetheless observed that the economic growth of Lesotho is much dependent on factor accumulation (Physical capital and human capital) as the IMF¹⁵⁸ has statistically indicated that factor accumulation constitutes 105% of real growth in Lesotho. The low

¹⁵⁵ Wellings Paul, 1984, Development by Invitation, South Africa Corporate Investment in Lesotho, University of Natal, South Africa

¹⁵⁶ Ibid, p:18

¹⁵⁷ Loc Cit, p:18

¹⁵⁸ IMF, Kingdom of Lesotho: Selected Issues and Statistical Appendix, 2008, IMF Publications

productivity that table 2.0 displayed confirms that Lesotho's economic development is not depended on factors within the country but on factors that the country does not have control over. For instance, if the sub-prime mortgage loan crisis in the US pitches extremes and the consumers' confidence gets dented with looming liquidity trap, they will start hoarding the money. This will affect the selling rates and returns of the world giant market (Wal-Mart) and in that regard it (Wal-Mart) will roll back its purchasing capacity. This will have implications to exports from countries such as Lesotho and instantly FDI will decline and as result the capital accumulation will slow down. Other countries in the region that are not dependent on factor accumulation of capital flow which is backed up by the apparel footloose FDI will not bear the brunt of the situation in the same way as Lesotho.

The scenario that is unveiled by figure 2.2 show that a role that inward FDI play to accelerate development hinges on other factors that when not properly placed, even with so much inward FDI stocks, it will not be easy to have a proportional levels of development to the level of FDI inflows.

The many factors that affect efficiency of an economy involve public goods element, and it is well known that in economics market themselves can not provide enough amount of public goods. Usually governments are the only agents that have an ability to provide public goods, which implies that the role of government is important in economic growth¹⁵⁹.

Lesotho development process seems to be going at a stalling pace. The figure 3.5 illustrates that, HDI for Lesotho is at a lower position relative to its peers from sub-Saharan Africa that also are in the same category of lower middle income with Lesotho in UNDP standards. There seems to be some diminishing returns towards human capital development. This scenario resonates with the argument that the exclusive market oriented governance is capable of efficiently allocating resources. It was also argued earlier that, market oriented governance fails especially in developing countries where

¹⁵⁹ www.adbi.org/discussion-paper/2006/11/28/2066.fdi.southasia.policy.trends/impact.and.determinants.of.fdi/ accessed on this date:04/July/2008

exclusive market oriented governance entrusted in resources allocations towards other productive sectors of economy. However still, the situation depends on appropriateness and congruence of the strategies and policies geared towards effecting progress. For instance, Khan argues that growth enhancing governance owes its success on certain institutional and political aspects that provide a favorable environment for enforcement of development strategies, and in any event if essential governance capabilities are not in place growth enhancing strategy may be counterproductive¹⁶⁰. This means, (even though the issue of sequencing is critical for development in the developing countries) that some countries have adopted certain strategies that allow them to have efficient resource allocation to the productive human capital, hence the differences we observed in human development indices in the selected sample of the lower middle income category in the sub-Saharan Africa.

Sachs and others in their work that reviewed poverty in Africa attributed development problems in the region to the structural barriers that among other things included low productivity¹⁶¹ which else where Khan has associated it (low productivity) with market oriented governance. Table 3.0 also demonstrates levels of productivity in some of the sub-Saharan countries and Lesotho is one of the countries with low (less than zero) productivity levels. This becomes consistent with Khan's argument that good governance is not a silver bullet that can solve development problems of the developing countries without it being inclusive of growth enhancing governance¹⁶².

Table 2.0 shows the regional performance with regard to good governance. The regional ranking of sub-Saharan countries reveals how hard to achieve good governance conditions under poor chronic poverty that the member countries are still mired in. With regulatory quality that measures the ability of government to competence in supporting

¹⁶⁰ Ibid,p:17

¹⁶¹ Sachs Jeffrey, John W. McArthur, Guido Schmidt Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye, and GordonMcCord, Ending Africa's poverty trap. *Brookings Papers on Economic Activity* 1: 117-240. 2004

¹⁶² Ibid,p:16

private sector Lesotho only rates at 24.8%¹⁶³. Sachs and Khan in the independently of each other have a consistent argument that poorer countries steadily have poorer good governance indices compared to richer countries since good governance itself needs huge resources in order to finance institutional change that have to conform to the western standards¹⁶⁴. It is almost impossible to accomplish the good governance prerequisites in developing countries.¹⁶⁵

However, the developing countries from the sub-Saharan region almost invariably are subjected to the conditionalities that seem to be backing up (if not a replica of) good governance model which evidence has indicated that it is not capable on its own to accelerate development because of its infallibilities. The eligibility conditions under the AGOA market arrangement make this argument even clearer.

On the offensive these days are those who believe that every country should adopt a set of 'good institutions' (Unfortunately often implicitly equated with US institutions), with some minimal transition provisions (five-ten years) for the poor countries-various agreements in the WTO being the best example of this. Backing up this claim is a rapidly growing body of literature, especially from the World Bank and its associates, which tries to establish statistical correlation between institutional variables and economic development, with supposed causality running from the former to the latter¹⁶⁶.

As a result the focus of governance agenda is not home-grown; it is not set and refined by the public debate at home¹⁶⁷. The whole package of conditionalities becomes the order of the day. The good governance apparently has been pushed on the developing countries and it is very heavy unto them. "Imposing development from outside does not work"¹⁶⁸

¹⁶³ World Bank Governance indicators, Op. Cit, <http://www.worldbank.org/wbi/governance/pubs/govmatters3.html>, accessed on this date:12/July/08

¹⁶⁴ Khan M. Op. Cit.p:4

¹⁶⁵ Ibid, p:15

¹⁶⁶ Ha Joon Chang:2005, Op. Cit.p.75

¹⁶⁷ <http://www.50years.org/cms/updates/story/353>, accessed on this date: 07/07/08

¹⁶⁸ <http://www.50years.org/cms/updates/story/353>, accessed on this date: 07/07/08

The good governance is an end of many other fundamentals that should have happened prior its adoption as the developed countries were only in a position to adopt it at their maturity stage of development. Earlier on, Khan argued that, economic development should take place prior market enhancing governance then the latter can follow and this argument goes hand in glove with Chan's assertions: "The successful developers are also misleading as role models because the pragmatic steps they took were compatible with their political conditions and could be easily implemented"¹⁶⁹. This means that developing countries are being misdirected to put their focus where it best serves the interests of the NDCs; the harmonization with local initiatives and customization of such exotic policies is less articulated¹⁷⁰.

Lesotho good governance indicators describe Lesotho as one of the most loyal and committed countries to the ethos of good governance without having internal controls that would ensure that a domestic governance agenda is not completely abandoned. Comparatively, Lesotho good governance indicators score rate far ahead the regional aggregated scores however, GDP per capita flagged that , economic development performance in Lesotho is lagging behind as compared to its neighbors that in contrast lack far behind when it comes to inward FDI to Lesotho. This scenario is in conformity with the argument that exclusive good governance is not capable of accelerating development especially where it is not blended with compatible strategies that can initiate accelerated economic development.

Some critics have indicated that certain international NGOs and organizations deserted Lesotho and some even rolled back their budget owing to its limited implementation capacity. This claim that Roy made seems to be supported by evidence unearthed in the bilateral commissions. The JBCC between Lesotho and South Africa typifies Lesotho governance as one that is plagued with deficiency of capabilities to deal with the moral hazard of inefficiency within its institutions. Sachs¹⁷¹ argues that, governments should

¹⁶⁹ Chan, 2005, *Op. Cit.* p:70

¹⁷⁰ <http://www.50years.org/cms/updates/story/353>, accessed on this date: 07/07/08

¹⁷¹ Sachs, *Op. Cit.* p:31

spearhead coordination and implementation of their development programs and should not be limited to the crafting plans only.

However, after the display of political will and thus commitment by the two states' head of government to cooperate in view of spurring Lesotho economic progress JBCC was consigned to the technocracy level. The government leaders left the implementation part within the purview of the officials and this did not reflect any political pressure and urgency on the side of officials. The governments leaders' spur of sense of urgency was only limited to their speeches (especially from the Lesotho side) during the official visits to either Lesotho or South Africa. "When we signed the JBCC agreement in 2001, we were demonstrating our political will and commitment.... we were very genuine about this."¹⁷². Looking at Mozambique and South Africa JPCC, one sees that every meeting, either a Minister or the President himself is leading the delegation to either South Africa or Mozambique depending on who hosts in that particular time. The high powered delegation led from Lesotho by the Prime Minister to Cape Town in July 2007 was the first one since 2001 when the South African president was in Lesotho for the first signing of JBCC. This means that, in the period 2001 to 2005 implementation all had to be done by the officials. In contrast, the bilateral economic cooperation meetings between the Mozambique and the Republic were characterized by a constant high level interaction, amongst heads of government of the two states, Ministerial as well as parliamentary level.

The JPCC deliberates at senior official level on progress made with the implementation of the technical component of the various bilateral cooperation initiatives existing between the two countries and to report the details of such progress to the Heads of State Economic Bilateral Meetings.¹⁷³

With the Lesotho and South African case, the plethora of meetings took place between the government officials alone with very confined latitude of mandate, more so when the foreign policy of each of the two countries towards each other is still on transitional

¹⁷²Pakalitha Mosisili addresses audience, in July 2007, Cape Town.

¹⁷³ <http://www.dfa.gov.za/docs/2005/port1117.htm>, accessed, 17 September 2007

trajectory. There have been some historical ills and injuries that aggravated the relations between the countries; though the two democratic governments (ANC led and LCD led) are trying to relax their relations the situation is still uncertain and needs a rigorous exemplary political leadership to display that Lesotho and South Africa have now adopted a policy of peaceful coexistence. In analyzing one of the sources of tension on the Lesotho's foreign policy towards South Africa Hirschman¹⁷⁴ submits that:

It had been expected in Maseru that the South African government appreciative of Lesotho's steps to facilitate its outward movement into Africa would provide substantial financial aid by way of return. Unlike Malawi which gained capital aid, Lesotho received no such favors.

Motlamente and others argued that the policy between Lesotho and South Africa has not changed even under the LCD and ANC led governments the policy of each of the two states remains the same towards each other¹⁷⁵. In the mean time, there is a series of issues that make Basotho to perceive that South Africa has to contribute a larger share in Lesotho's economic transformation and those have their roots in the history that these two countries share. Therefore the inception and ratification of JBCC was ambiguous in its nature as to what exactly was meant by President Thabo Mbeki when he made an undertaking that South Africa will assist Lesotho to graduate from its position of the least developed to the better in period of five years. The statement was made in ACP, UN conference at Brussels in 2001. The South African president repeated his words while in Lesotho for the signing of JBCC in 2001. All these gave window for diplomatic ambiguity in relation to the implementation of JBCC.

¹⁷⁴ Hirschmann D. Changes in Lesotho's Foreign Policy Towards South Africa, African Affairs, vol.78.311, April 1979, pp.177-196

¹⁷⁵ Kapa, Motlamente Anthony, Lesotho's policy towards South Africa: policy or imperative? What has changed? Volume 37 Issue 1, Publicationhttp://www.sabinet.co.za/abstracts/afrins/afrins_v37_n1_a7.xml on Date:2007, Publisher:Sabinet Online, quoted from the abstract, the main document was not accessed.

Diplomatic ambiguity in this case explains the confusion was a result of different interpretation each country had about JBCC. One party chose one convenient connotation and the other one had also got stuck with the connotation that was best suitable. Each party stayed optimistic that it was in the better side of the situation given the background that informed its anticipations. In bilateral cooperation of this nature the ambiguity results into a misunderstanding that retains the injured party in even more hesitation. Ambiguity becomes diplomatic when it is a function of diplomatic contract¹⁷⁶.

With regard to JBCC, the Lesotho side pitched its expectations high because they did not perceive the cooperation between Lesotho and South Africa to be a relationship of equals and as a result anticipated that; South Africa was going to channel millions Rands into Lesotho economy to fulfill the political statement that was made by South African president. However the South African side perceived the cooperation as a mutually beneficial partnership despite the fact that the partners were not of equal size both economically and geographically. They completely eliminated the notion of donor/recipient arrangement but a mutually beneficial partnership for the two states involved.

This confusion could not be semantically fixed quickly. Instead, the officers from the two countries involved dedicated all their time from 2001 to 2005 to haggling over for their disjointed perspectives. The period 2001 to 2005 did not bring the Basotho people any speck of benefit out of the JBCC arrangement in the period 2001 to 2005. The meetings were plagued with conflicting perceptions about the perspective of Commission. This made the Commission got stuck. The elongated debate on what was right in relation to the wording of the contract defeated the purpose of the commission itself for this first phase of JBCC.

Again, giving the JPCC of South Africa and Mozambique a glance, we see how the Mintek, SAB Miller and many other private and state owned companies are interacting

¹⁷⁶ Pehar D. Diplomatic ambiguity, From The Power Centric and Practice to a Reasoned Theory, 2005, Keele University, UK.

within the context of JPCC to also move in a tempo that is less proportional to the pace of the governments. The Mozambique case attests to governance with abilities of taking charge of implementation of appropriate strategies that might well be in alignment with their governance agenda.

On the other hand, another problem which became inimical to the effective implementation of JBCC was lack of mechanisms that were needed to safeguard and promote the industrial sector including the role to be played by each of the stakeholders there in. Lack of industrial approach partly contributed to failure of successful implementation of the commission. The Industrial Development Cooperation (IDC) has been utilized by the Government of South Africa as a primary catalyst for South African and Mozambique cooperation and development. Trading patterns between the two states improved dramatically since the signing of the cooperation. The total exports to Mozambique from South Africa were valued at R6, 402 billion. South Africa imported from Mozambique to the value of 199, 282 million in the same period, table 1 refers.

Libson argues that, the idea of development strategy that excludes private sector is not realistic¹⁷⁷. The lack of involvement of the small business community is certainly one of the factors that also contributed to the sluggish progress of the JBCC implementation. “As Your Excellency has kindly arranged, tomorrow I will be interacting with the business community with a view to fast tracking promotion of investment in Lesotho by South Africans.”¹⁷⁸ The role of the business sector in this Commission was only realized after six years since the life of the Commission.

Many officials both from the two states did not understand the scope of the Commission, they relied on procedure to limit their responsibilities and thus the momentum for implementation was totally lost. This negatively impacted on the scheduled meetings that were supposed to have been attended. Apparently Lesotho and South had scheduled

¹⁷⁷ Libson European Council 23 Mar, 2000, http://ue.eu.int/ueDocs/cms_Data/docs/pressdata/en/ec/00100-r1.en0.htm, accessed on his date: 07/07/2008

¹⁷⁸ Mosisili, *Op. Cit.* p:3

to meet four times per annum but this never happened owing to the hazy administrative bottlenecks. A paucity of a joint compartmentalized management style, through which efficiency in implementation would have been ensured, had been a serious constraint. The officials were working under their own command sometimes without even reporting to powers that be. There had been a disjuncture between the political executive and the government officials to the extent that political executives lost touch of progress of chain of events.

What Lesotho did not do?

Lack of home-grown strategy, failure to realize the importance of interactive role of other institutions such as research institution, resulted into a situation whereby Lesotho was not able to identify the sound and bankable projects that could have assisted with a quick implementation. The absence of a well coordinated research programs and priorities, including a significant volume of jointly –programmed public research on investment at the bilateral level resulted into lack of knowledge sharing, notably between the public and industrial sectors.

The research approach would have helped in surfacing public private chronic and pressing problems that needed immediate attention to unchain the growth. It could have encouraged the private sector to establish a cohesive consultative analysis mechanism and presented a coherent view of its policy needs to the government so that timely determination of the entry point of private sector could have been made. Looking at South Africa and Mozambique Joint Permanent Commission for Cooperation a strong cohesion between public and private is evident as illustrated hence “challenges the dependence theory doomsday”.¹⁷⁹

What South Africa did

South Africa played a ‘wait and see diplomacy’. Despite the time frame well articulated by the President of the Republic, it did not display or commit itself to any sense of

¹⁷⁹A. Erwin, <http://www.info.gov.za/speeches/2008/08041015451001.htm>, accessed on this date:20/06/2008

urgency in this partnership. South Africa's role was only facilitative in so far as the Commission was concerned. It did not allow itself to assume a leading role. This means that, South Africa was only responsive to the Lesotho's attitude in relation to the pace Lesotho was willing to set at to achieve tangible deliverables.

Conclusion

The study therefore has been comprised of five chapters that have delivered the evidence and have vindicated the hypothesis and sufficiently addressed research question through the use of scatter plots and comparative analysis. The process tracing was also used in the assessment of how variables are connected to each other.

The study intended to explore how FDI, governance and economic development interplay in Lesotho. The empirical evidence has provided a confirmation that Lesotho performs better than many of the countries in sub-Saharan Africa. However Lesotho lags behind in its productivity and economic development performances relatively to many of the countries in the region. However all countries in the sub-Saharan Africa that have been included in the study have adopted market enhancing governance (good governance) and they only differ in their commitment in acceleration of improving on each governance indicator. The difference between Lesotho governance indices and regional governance indices demonstrated two issues: (a) Lesotho is more committed than many countries in the sub-Saharan Africa in improving on each governance indicator and as a result it seems also to be doing better in market enhancing governance (good governance). (b) For both independent and moderating variables Lesotho is out performing many countries in the sub-Saharan Africa. On the flipside, evidence also shows that development, as has been measured in this study, Lesotho is lagging far behind most of these countries.

The diverging scenario between capital accumulation and development makes the issue of efficient allocation of resources more central to the argument of the study. The theory of developmental state believes that, a state should direct investment in such a manner that it will promote the national economy and should also be adequately be competent to establish both political and economic ties that will accelerate development. The

exclusive market enhancing governance (good governance) is limited in relation to efficient resources as has been argued earlier in the study.

The relationship of governance type and its capabilities seem to be a culprit in connection with the stalling development process due to number of reasons: (i) Good/market enhancing governance, as some scholars have argued, it is a burden economically on developing countries. It is expensive in the sense that, it changes the local governance agenda so that a country can qualify for certain financial assistance from the international organizations or/ and the NDCs. The developing countries work so hard, and face a huge task of fine-tuning their institutions so that they can take shape of those ones in US. This process is financed heavily with the resources that would be otherwise financing the development. (ii) The market enhancing governance does not have capabilities competent enough to ensure equitable allocation of resources since the market is riddled with imperfections. As it was also argued, development entails public goods that good/market enhancing governance does not have access to. (iii) Good/market enhancing governance seems to be a tall order for the developing countries owing to the fact that, the developed countries never adopted it at the early stages of their development. The good/market enhancing governance needs a lot of resources and the early stages of development need a lot of resource inflows. So the developing states do not have enough resources to juggle between the two pressing goals at the same time, as such compromises productivity due to its inability to allocate resources. (iv) It is also incapable of enforcing efficiency of state institutions such that implementation of the public policy in weaker states remains compromised.

Indeed the trends indicated that Lesotho has been able to emerge in FDI attraction over and above a reasonable number of countries in the sub-Saharan Africa. However evidence shows again that, in contrast Lesotho seems to have some diminishing returns towards human capital. This implies certain inefficiency in the distribution of resources. The argument above explains why FDI performance is not making much of a difference in terms of closing the gap between the rich and the poor. The HDI level for Lesotho in 2005 reveals this fact. Without discounting the impact of HIV/AIDS, the contention that

HDI in Lesotho is affected by HIV/AIDS is not sufficiently supported with evidence. First and foremost, HDI is a composite measure of development that accounts for longevity of life through life expectancy and as such has catered for the effect of the pandemic. Again, Lesotho is not the only country in sub-Saharan Africa that is plagued with the disease and there are countries that even have higher prevalence rate of HIV/AIDS than Lesotho but their HDI levels are quite higher than that of Lesotho. The current statistics unveils that, in 2005 Lesotho prevalence rate was ranging at 28.9% while Botswana was at 37.3%, Swaziland was at 38.8% and Kenya was at 6.7%¹⁸⁰. Looking at HDI scatter plot (figure) we observe that, the argument that Lesotho HDI is affected by HIV/AIDS can not hold in absolute terms or is even less supported by evidence. Kenya has less HIV/AIDS prevalence rate, in contrast has lower HDI level. Botswana has high HIV/AIDS prevalence rate and at the same time has a high HDI level in the same year. “Resources are allocated less efficiently where anti competitive regulations are severe”¹⁸¹.

Crony capitalism syndrome characterizes the nonexistence of competitive service regulation because the government gratifies certain class of economic oligarchs at the expense of the poorest of the poor. The anti competitive regulations are only consistent with the country that has weaker capacities to allocate resources to the active and prolific public goods such as the poor people, the disadvantaged groups and women, public transport, health and education¹⁸². The Lesotho patient doctor ratio of 20, 000:1 compared to Botswana, 2,500:1, South Africa, 300:1 and Zambia with 8,300:1¹⁸³ and more than 51%¹⁸⁴ of students who drop out before they reach Form E (metric equivalent) provides evidence to the effect that public goods are not efficiently allocated resources.

¹⁸⁰ www.kff.org/hivaids/uploads/7357.pdf. accessed on this date:26/06/2008

¹⁸¹ Jens Arold, Giuseppe Nicolletti and Steffano Scappertta, Regulation, Allocative Efficiency and Productivity in OECD Countries, Industry and Firm-level evidence, OECD, 17 June 2008

¹⁸² Ibid, p:7

¹⁸³ <http://strangemaps.wordpress.com/2007/10/17/185-the-doctorspatients-map-of-the-world/>, accessed on this date: 12/08/2008

¹⁸⁴ <http://education.stateuniversity.com/pages/840/Lesotho-SECONDARY-EDUCATION.html>, accessed on this date: 12/08/08

The low productivity is one of the salient flaws of the market enhancing (good governance) and also a daunting problem that Lesotho has. This also underlines some infallibilities of the market enhancing governance (good governance) to allocate resources. “An increase of half a percent a year can make a huge difference over 20 or 30 years”¹⁸⁵. Higher productivity is figurative of a country’s capability of drawing more of goods and services from the factors of production and also signifies higher GDP per capita¹⁸⁶. So, Lesotho low productivity means failure of the state to coordinate, investment, its institutions in a manner that the standards of living of the poor can improve.

The heritage foundation reports rates Lesotho’s economy at 51% and has described the tax regimes as burdensome. This means that the government intervention in economic affairs is substantially still huge however the public income is used on measures that alleviate poverty to a limited extent. In contrast, Basotho people do not seem to be gaining proportional benefits as is expected from the public income. “...the control regulations are facing great difficulties in developing countries, particularly due to lack of appropriate administrative, judicial structures and political will”¹⁸⁷. Lesotho is not an exception in Africa where the regulations are easily turned around from their initial public interest aspirations to favor protection of certain individual groups.

The limited implementation of JBCC during the period of 2001 to 2005 also radiates from poor coordination of the public policy implementation in Lesotho which is the result of weak organizational structures, poor institutional framework and inadequate skills. JBCC is the first cooperation of its own kind that Lesotho ever had in Africa, and it is surprising that Lesotho government executives, parliament and other relevant stakeholders such as private sector did not occupy the driver’s seat in ensuring the expected implementation of the commission. Only middle management officials of a few ministries such as Foreign affairs and Development Planning and Finance were entrusted

¹⁸⁵ <http://people.ischool.berkeley.edu/~hal/people/hal/NYTimes/2004-02-12.html>, accessed on this date: 12/08/08

¹⁸⁶ Richard Harris, Determinants of Canadian Productivity Growth: Simon Fraser University and Canadian Institute of Research, December 1999

¹⁸⁷ <http://www.greengrowth.org/download/2008/print-friendly-pyramid.pdf>, accessed on this date: 12/08/08

with the responsibility ensuring successful implementation. This approach could have demystified the issue of ambiguity at the early stage. A commission of this nature for Lesotho befitted both diplomatic and political engagement. The attitude that South Africa adopted in relation to this commission speaks volumes about the value it attached on JBCC. South Africa has less to loose in failure to accelerate implementation of this Commission as the original intent was to lift Lesotho up. Therefore the Lesotho side has to pull all possible strings in ensuring accelerated and successful implementation of JBCC but all (success or failure) rises and falls on appropriate governance type and capabilities.

The significance of findings and implications

Our findings for this research signify that FDI might have its own benefits and effects but its potential to accelerate development is contingent on the governance capabilities to regulate and distribute rents efficiently for the faster economic development of the country. The FDI potential can not unleash itself unless proper growth enhancing strategies are put into place.

Lesotho has a bigger challenge for diversifying its FDI inflow since its economy seems dependent on capital accumulation; hence it remains vulnerable to the external shocks that are beyond its control. The US sub-prime mortgage loan gives a big alarm for diversification need. Again, the efficient implementation is also another drawback against progress in Lesotho but at the same has its roots to the governance abilities and type.

The study finally agrees with Khan¹⁸⁸ that, even though market enhancing governance has some inefficiencies, it does not imply that it is insignificant however the developing countries should be given an opportunity to adopt (on incremental basis) only those elements that they are relevant in a particular stage of development in their own relative political circumstances to complete growth enhancing governance until they have reached

¹⁸⁸Khan M. Op. Cit p:7

maturity stage of development. An implication is made therefore that governance type has been a barrier that constrain FDI potential in accelerating development in Lesotho.

Appendix 1

```
plot(trial$fdi.avg,trial$gdp.avg,type="n", main="FDI and GDP Per Capita
Growth",xlab="FDI % of GDP",ylab="GDP per capita % growth")
text(trial$fdi.avg,trial$gdp.avg,labels=trial$ctry)
plot(trial$fdi.avg,trial$gdp.avg,main="FDI and GDP Per Capita Growth",xlab="FDI %
of GDP",ylab="GDP per capita % growth")
text(14,2,labels="Les",col="red")
arrows(10,10,3.5,3.5)
text(10,10,labels="Moz",col="red")
arrows(0,10,1.5,4)
text(0,10,labels="Bots",col="red")
text(19.8,-1,labels="LBR",col="red")
text(37,19,labels="GNQ",col="red")
```

Appendix2

```
ssa.data<-read.delim('clipboard',header=T)

ssa.data

##

plot(gdp~fdi,data=ssa.data,type='n',

xlab='gross domestic product',ylab='foreign direct investment')

text(ssa.data$gdp,ssa.data$fdi,labels=ssa.data$code,cex=.8)

##

reg.out<-lm(gdp~fdi,data=ssa.data)

abline(reg.out,lwd=2,col='red')

data<-read.delim('clipboard',header=T)

data

plot(data$year,data$fdi,ylab='foreign direct investments',xlab='year',type='b')

plot(data$year,data$gdp,ylab='gross domestic product',xlab='year',type='b')

####
```



```

avg.data<-read.delim('clipboard',header=T)

avg.data

plot(avg.gdp~avg.fdi,avg.data,type='n',
xlab='gross domestic product',ylab='foreign direct investment')
text(avg.data$avg.gdp,avg.data$fdi,labels=avg.data$code,cex=.8)

reg.out<-lm(avg.gdp~avg.fdi,data=avg.data)

abline(reg.out,lwd=2,col='red')

##

avg.xl<-read.delim('clipboard',header=T)

avg.xl

plot(avg.xl$fdi,data=avg.xl,type='n',ylab='foreign direct investment')
text(avg.xl$fdi,labels=avg.xl$code,cex=.8)

reg.out<-lm(avg.xl$fdi,data=avg.xl)

abline(reg.out,lwd=2,col='red')

##

hdi.ssa<-read.delim('clipboard',header=T)

plot(hdi.ssa$hdi,data=hdi.ssa,type='n',ylab='Human Development Index')
text(hdi.ssa$hdi,labels=hdi.ssa$code,cex=.8)

###

gdp<-read.delim('clipboard',header=T)

plot(gdp$avg.gdp,data=gdp,type='n',ylab='GDP per Capita')
text(gdp$avg.gdp,labels=gdp$code,cex=.8)

###

```

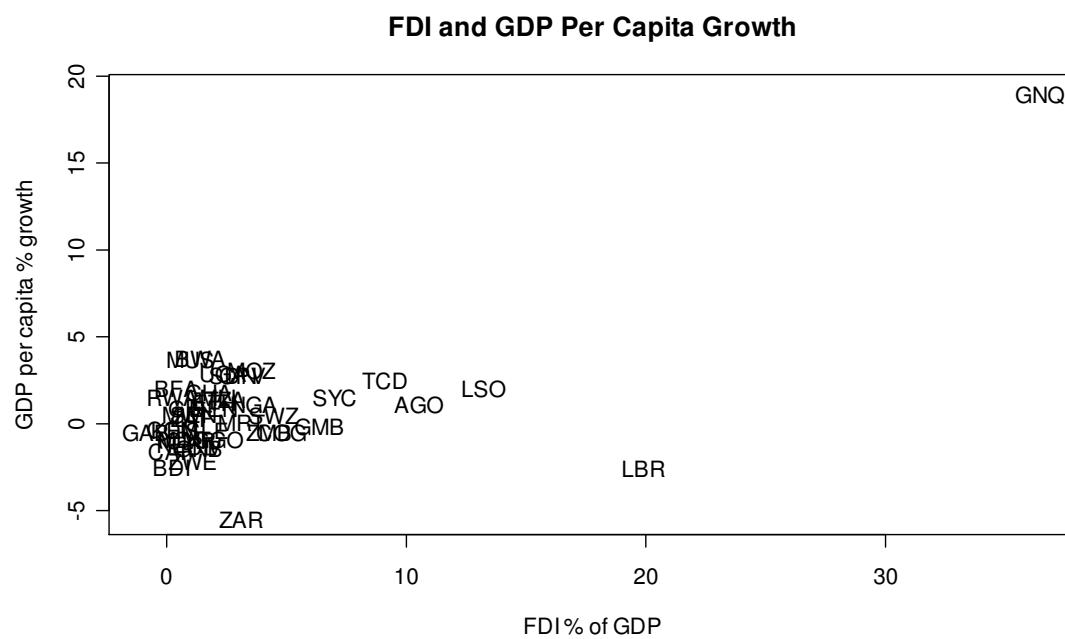
```
hpi.ssa<-read.delim("clipboard",header=T)
```

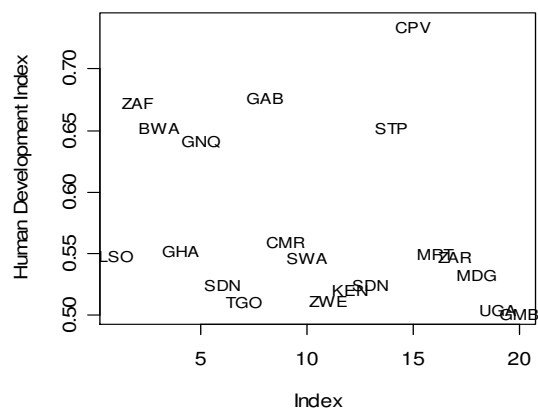
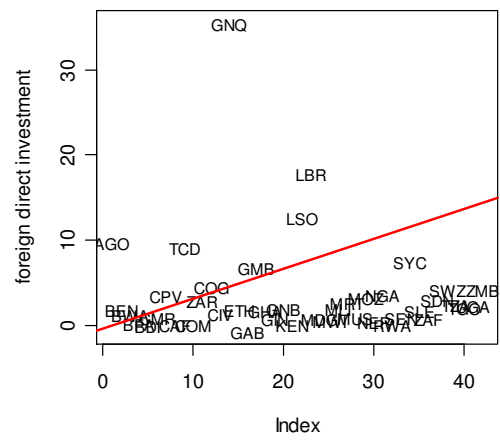
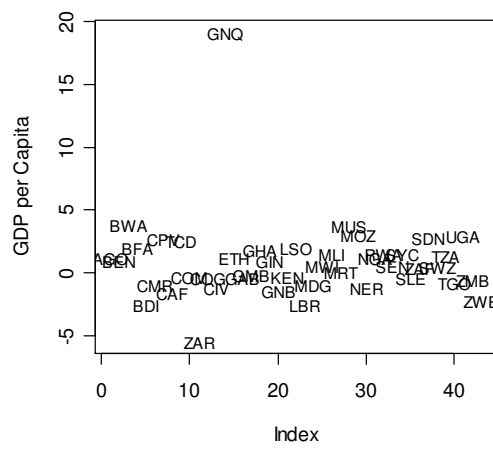
```
hpi.ssa
```

```
plot(hpi.ssa$hpi,data=hpi.ssa,type='n',ylab='Human Poverty Index')
```

```
text(hpi.ssa$hpi,labels=hpi.ssa$code,cex=.8)
```

Appendix3





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