



**NATIONAL UNIVERSITY  
OF LESOTHO**



**WORLD TRADE  
ORGANIZATION**



**WTO  
CHAIRS  
PROGRAMME**

# **A COMPENDIUM ON INTERNATIONAL TRADE IN LESOTHO**

**Edited by**

**Denis Nfor Yuni**

**&**

**Tsotang Tsietsi**

**DECEMBER 2023**

## **ACKNOWLEDGEMENT**

We sincerely appreciate the National University of Lesotho – World Trade Organization (NUL-WTO) Chair for supporting our conceptualisation, and funding the development of, this monumental compendium. By extension, we express our esteemed gratitude to the World Trade Organization Chairs Program (WCP). This compendium will significantly contribute to the existing stock of literature on international trade in Lesotho. We equally thank the technical and language reviewers who reviewed the manuscripts and gave credible recommendations. We trust that this will be a valuable resource for academics, researchers, students and anyone with an interest in Lesotho's unique perspectives on international trade.

## PREFACE

International trade remains one of the key indicators of economic welfare of any economy. It directly increases foreign exchange earnings, meets consumer demand for foreign goods and increases production. Indirectly, it potentially increases employment, improves technology via spill over effects and ultimately improves economic growth. On the flip side, International trade can promote dumping, exposure to negative external shocks, expose local firms to unhealthy competition, etc. Understanding how, which, why, where and in what ways international trade manifests in any economy is therefore imperative. It is on this premise that this study developed a compendium on international trade that constitutes an analysis of key blocks of the literature on international trade. This compendium uses qualitative analysis such as content summarisation and descriptive analysis to bring to light the implications of/for International trade in terms of the history, legal, political, social, geographical and economic realities of Lesotho. The compendium is expected to serve as a one-stop shop of relevant literature for postgraduate students and researchers interested in issues relating to international trade.

The compendium starts with a detailed history of international trade in Lesotho by Prof Attah and Dr Maliehe. The chapter compares three major epochs that frame the rise and fall of Lesotho's economic development, which is important in understanding the roots and trajectories of Lesotho's participation in international trade. Historical evidence used to chronicle this history demonstrates that Lesotho moved from a state of economic significance in emergent international trade networks in the first half of the nineteenth century to an insignificant player since the second half of the nineteenth century. In Chapter 2, Dr Tsietsi and Dr Kometi discuss the international dimensions of the legal and institutional frameworks for trade in Lesotho. Specifically, they discuss the World Trade Organization's agreements, regional dimensions of the legal and institutional frameworks for trade in Lesotho and the domestic dimensions of the legal and institutional frameworks for trade in Lesotho. In chapter 3, Dr Ngang rigorously dissects the political dynamics of international trade in Lesotho. He profiles the complexities in the politics of international trade and discusses the perceived benefits from international trade as an outcome of an export driven trade strategy and trade performance. He submits that the Lesotho government needs to decisively embark on adopting policies that prohibit the export of raw materials and primary products while promoting and incentivising domestic production and conversion of the raw materials and primary products into finished consumable products before they can be certified for export.

In chapter 4, Dr 'Maseribane, Dr Leseba and Dr Lebuso discuss the geographic and demographic context of international trade in Lesotho. Specifically, they x-ray the importance of demography for international trade, Demographic Change and International Trade and the trends in consumer demand by demographics. Meanwhile, Dr. Hapazari analyses the socio-cultural and religious context of international trade. She submits a detailed analysis of the Socio-cultural and religious context of Lesotho. Ultimately, the chapter discusses these contexts with implications to international trade and proffers recommendations thereof. Dr Muroyiwa, Dr Letuma and Dr Ratsoane dissect the agricultural sector of Lesotho to snowball relevant implications on International trade. Specifically, they discuss the the status of agricultural sector and trade in Lesotho, the drivers, opportunities and barriers of agricultural production and trade in Lesotho, the trade agreements and policy developments affecting agricultural trade and also analyse the agricultural trade patterns over the past 25 Years

Dr Yuni dissects the implications of fiscal and monetary policy as well as their coordination on International trade in Lesotho. Amongst other recommendations, the chapter submits that the government has to promote an export-led growth-oriented policy framework, improve favourable infrastructure for international trade by increasing capital allocation and improve sensitisation of competitive tax rates in the region to attract investors. Still from an economic perspective, Dr Nchake demystifies the service sector in Lesotho by discussing its trends, legal framework, and opportunities. Dr adelakun and Mrs Raseleman discuss the human capital development and its implications on international trade in Lesotho. The authors carefully review state, types, determinants and trends of human capital development in Lesotho. They then analyse its trend and prospects in relation to international trade and then discuss the Lesotho regional economic outlook and international trade. Finally, as a concluding chapter, Dr Nyesemane and Dr Ratsiu synthesise the strengths, weaknesses, opportunities and threats of international trade in Lesotho.

# TABLE OF CONTENT

## Table of Contents

ACKNOWLEDGEMENT.....	ii
PREFACE.....	iii
TABLE OF CONTENT .....	v
LIST OF FIGURES.....	x
LIST OF TABLES.....	xi
CHAPTER ONE .....	1
A HISTORY OF INTERNATIONAL TRADE IN LESOTHO .....	1
1.1 Introduction .....	1
1.2 Colonialism and the Changing Role of Basotho in International Trade .....	6
1.3 Independence, Developmental State, and Import Substitution Industrialisation .....	7
1.4 Neo-liberal Globalisation and New Dynamics in Lesotho's Participation in Regional and Global Trade .....	10
1.5 Conclusion.....	12
CHAPTER TWO .....	17
THE LEGAL AND INSTITUTIONAL FRAMEWORKS OF INTERNATIONAL TRADE IN LESOTHO .....	17
2.1. Background .....	18
2.2. The International Dimensions of the Legal and Institutional Frameworks for Trade in Lesotho.....	19
2.2.1. The General Agreement on Tariffs and Trade (GATT).....	19
2.2.2. The World Trade Organization's (WTO) Agreements .....	21
2.3. Regional Dimensions of the Legal and Institutional Frameworks for Trade in Lesotho.....	23
2.3.1. The African Continental Free Trade Agreement (AfCFTA) .....	23
2.3.2. The Southern African Development Community (SADC) .....	25
2.3.3. The Southern African Customs Union (SACU).....	26
2.4. The Domestic Dimensions of the Legal and Institutional Frameworks for Trade in Lesotho.....	26
2.4.1. The Constitution of Lesotho (1993) .....	27
2.4.2. Licensing.....	28
2.4.3 Transactional.....	30
2.4.4 Formation of sale contracts and their terms .....	32
2.4.5 Dispute Resolution.....	33
2.4.6 Execution of court decisions and arbitral awards.....	35
2.5 Conclusion.....	35
CHAPTER THREE .....	37
THE POLITICAL DYNAMICS OF INTERNATIONAL TRADE IN LESOTHO .....	37
3.1 Introduction .....	38

3.2 Complexities in the Politics of International Trade .....	39
3.2.1 Lesotho's International Trade Engagements .....	40
3.2.2 Some Major Trade Agreements .....	41
3.3 Perceived Benefits from International Trade.....	44
3.3.1 Trade Performance .....	44
3.3.2 Export Trade Strategy and the Constraints to its Realisation .....	46
3.4 Conclusion and Policy Recommendations .....	47
CHAPTER FOUR .....	52
THE GEOGRAPHIC AND DEMOGRAPHIC CONTEXT OF INTERNATIONAL TRADE IN LESOTHO .....	52
4.1 Introduction .....	53
4.1.1 Importance of Demography for International Trade .....	54
4.1.2 Demographic transition and international trade .....	54
4.2 Demographic Change and International Trade.....	56
4.2.1 Demographic change and the composition of demand.....	56
4.2.2 Youth Bulge and Consumption Demand .....	56
4.2.3 Aging Population and Consumption Demand.....	59
4.2.4 Migration and International Trade .....	61
4.3 Conclusion and Recommendations.....	66
CHAPTER FIVE .....	70
SOCIO-CULTURAL AND RELIGIOUS CONTEXTS OF INTERNATIONAL TRADE IN LESOTHO.....	70
5.1. Background of Lesotho .....	71
5.2. Literature review.....	73
5.2.1 Factors that promote international trade.....	73
5.2.2 Factors that hinder International Trade.....	74
5.3. Conceptual framework .....	74
5.4. Methodology.....	75
5.5 Findings and discussion.....	75
5.5.1 Socio-cultural context of Lesotho .....	75
5.6. Religious context of Lesotho .....	83
5.7. Implications of Socio-Cultural Context on International Trade .....	83
5.8. Conclusion.....	87
5.9. Recommendations .....	88
CHAPTER SIX .....	90
AGRICULTURAL SECTOR AND INTERNATIONAL TRADE IN LESOTHO .....	90
6.1 Introduction .....	91
6.2 Methodology/Approach to The Study .....	92
6.4 Drivers, Opportunities and Barriers of Agricultural Production and Trade in Lesotho .....	94

6.4.1 Drivers for Agriculture Production and Trade.....	94
6.4.2 Opportunities for Agriculture Production and trade .....	95
6.4.3 Barriers to Agriculture Production and trade .....	96
6.5 Trade Agreements and Policy Developments Affecting Agricultural Trade.....	97
6.6 History of Agricultural Production and Trade in Lesotho.....	98
6.9 Summary Conclusions and Recommendations.....	105
CHAPTER SEVEN .....	108
THE MACROECONOMIC ENVIRONMENT OF INTERNATIONAL TRADE IN LESOTHO .....	108
7.1 Introduction .....	109
7.2 Fiscal Policies and International Trade in Lesotho .....	110
7.2.1 Government Expenditure and International Trade in Lesotho .....	110
7.2.2 Tax and Subsidies in Lesotho and their Implications for International Trade.....	113
7.3 Monetary Policies and International Trade in Lesotho .....	114
7.3.1 Exchange Rate System and International Trade .....	114
7.3.2 Money Supply and International Trade .....	116
7.3.3 Interest Rate and International Trade .....	117
7.4 Macroeconomic Policy Coordination and Implications for International Trade .....	118
CHAPTER EIGHT .....	122
LESOTHO SERVICES SECTOR AND IMPLICATIONS FOR INTERNATIONAL TRADE.....	122
8.1 Introduction and Background .....	123
8.2 Overview of services sector in Lesotho.....	125
8.3 Trends in patterns and composition of Trade in Services .....	127
8.3.1 Commercial services exports .....	128
8.3.2 Commercial services imports .....	129
8.4 Legal and regulatory framework on Trade in Services.....	129
8.4.1 International and Regional Frameworks on Trade in Services.....	130
8.4.2 Domestic Frameworks for Trade In Services.....	133
8.5 Opportunities through digital transformation .....	134
8.5.1 Digital Trade and E-commerce.....	134
8.5.2 Digital trade finance and financial technology for services trade.....	137
8.5.3 Digital payment infrastructure for services trade.....	138
8.6 Conclusions and Policy Implications for Lesotho's Trade in Services.....	138
CHAPTER NINE .....	143
HUMAN CAPITAL DEVELOPMENT AND INTERNATIONAL TRADE IN LESOTHO .....	143
9.1 Background .....	144
9.1.1 Human Capital and International Trade.....	144
9.1.2 Types and Perspectives of Human Capital Development .....	146

9.1.3 Human Capital Theory .....	147
9.2 Determinants of Human Capital Development.....	149
9.2.1 Literacy or level of education:.....	149
9.2.2 Health:.....	150
9.2.3 GDP per capita: .....	151
9.2.4 Economic openness: .....	152
9.2.5 Inflation:.....	152
9.3 Constraints to human capital development.....	152
9.3.1 Low literacy and education levels: .....	152
9.3.2 Insufficient healthcare: .....	153
9.3.3 High unemployment and underemployment: .....	153
9.3.4 Brain drains: .....	153
9.3.5 Gender disparities:.....	154
9.3.6 Limited investment in skills development: .....	154
9.4 Solutions to the constraints hindering Human Capital Development progression.....	154
9.4.1 Low literacy and education levels: .....	154
9.4.2 Insufficient healthcare: .....	154
9.4.3 High unemployment and underemployment: .....	154
9.4.4 Gender disparities:.....	155
9.4.5 Limited investment in skills development: .....	155
9.5 Context Analysis and Comparison.....	155
9.6 Prospects of HCD and Lesotho Development Implications.....	156
9.7 Lesotho Regional Economic Outlook and International Trade .....	156
9.7.1 Regional Integration Significance.....	158
9.7.2 Implication of the SADC regional economic integration .....	158
9.8 Summary and Conclusion.....	159
CHAPTER TEN .....	165
SWOT ANALYSIS FOR INTERNATIONAL TRADE IN LESOTHO .....	165
10.1 Background .....	166
10.2 Introduction to SWOT Analysis .....	168
10.3 Strengths.....	168
10.3.1 Signatory to legal and institutional frameworks for international trade .....	168
10.3.2 Strategic location .....	169
10.3.3 Government support .....	169
10.3.4 Lower cost of doing business .....	170
10.3.5 Human capital .....	170
10.4 Weaknesses .....	170



10.4.1 Slow progress in implementing legal and institutional framework obligations.....	170
10.4.2 Heavy reliance on imports .....	171
10.4.3 Low industry base .....	171
10.4.4 Poor infrastructure.....	171
10.4.5 Weak supply chains and logistics .....	172
10.4.6 Weak institutional capacity.....	172
10.4.7 Unemployed Youth .....	172
10.5 Opportunities.....	173
10.5.1 Young Population.....	173
10.5.2 Member to RECs: SACU.....	173
10.5.3 Investment opportunities .....	173
10.5.4 Niche products .....	174
10.5.5 Electricity Generation .....	174
10.5.6 Trade facilitation for small and medium enterprises.....	174
10.6 Threats .....	175
10.6.1 Global economic downturn .....	175
10.6.2 Climate Change .....	175
10.6.3 Political instability .....	175
10.6.4 Lesotho being a landlocked country. ....	176
10.6.5 Low levels of competitiveness .....	176
10.7 Way forward .....	176

## **LIST OF FIGURES**

Figure 2.1: Type of Technical Assistance Requested	8
Figure 4.1: Lesotho Population Growth and Size (1986 to 2031)	54
Figure 4.2: Lesotho Total Fertility Rates and Infant Mortality Rates 1976-2021	56
Figure 4.3 Percentage of Youth in Lesotho, 2011-2031	58
Figure 4.4: Lesotho Population Age 60 Years and Above	61
Figure 5.1: Map of Lesotho	72
Figure 6.1: Agricultural GDP and Contribution of the various Sub-Sectors	95
Figure 6.2: National Grain Trade balance transition late in the 19th century	100
Figure 6.3: Comparison of Intra-Continental imports as percentage of GDP, 2013	101
Figure 6.4: Intra-African Merchandize Exports, 2015	103
Figure 6.5: National Sectoral contribution to GDP	103
Figure 6.6 Lesotho's Imports and Exports within SACU in 2022	104
Figure 6.7: Food imports vs Exports and Food Trade Balance	105
Figure 7.1: Trend of Marco economic Trade indicators in Lesotho – 1981-2021	114
Figure 7.2: Current account balance (BoP, current US\$) in CMA Countries	116
Figure 7.3: A trend of Annual Broad money growth rate, Net Trade and GDP growth rate	117
Figure 8.1: Contribution of services sector to the economy (2000-2022)	126
Figure 8.2: Contribution of services sector to the economy, by economic activity	127
Figure 8.3: Services, value added per worker (constant 2015 US\$)	128
Figure 8.4: Lesotho services exports to the rest of the world, percent of GDP (2005-2021)	129
Figure 8.5: Lesotho services imports to the rest of the world, percent of GDP (2005-2021)	130
Figure 8.6: Lesotho exports and imports of ICT services (2010-2021)	136
Figure 8.7: Lesotho exports and imports of digitally deliverable services (2005-2021)	137
Figure 9.1: Health and education spending as a proportion of total government spending	152
Figure 10.1: International Trade Statistics for Lesotho (WTO, 2023b)	168

## LIST OF TABLES

Table 1.1: Lesotho's Growing Foreign Trade Deficit (in Rand), 1961 – 1968	8
Table 1:1 Composition of GDP by Sectors, 1967/68	9
Table 5:2: Percentage distribution of Lesotho Population by Age	72
Table 8.1: Main services sectors under GATS	124
Table 8:2: Trade in Services is categorised into four modes of supply	131
Table 8:3: UNCTAD Business-to-Consumer (B2C) E-commerce index and ranking in SACU (2020)	138
Appendix A1: Lesotho's trade in services by sector to the rest of the world: (Million USD)	143
Table 9.3: Indicators	156

# CHAPTER ONE

## A HISTORY OF INTERNATIONAL TRADE IN LESOTHO

**Noah Echa Attah**

History in the Department of Historical Studies, National University of Lesotho.

Email: [neattah@gmail.com](mailto:neattah@gmail.com)

&

**Sean Maliehe**

Department of Historical Studies, National University of Lesotho.

Email: [seanmaliehe@gmail.com](mailto:seanmaliehe@gmail.com)

### 1.1 Introduction

The significance of international trade for a country's economic progress and well-being has been extensively studied in the field of economics since Adam Smith's ground-breaking investigation into the causes and nature of a nation's wealth (Smith, 1776; Sign *et al.*, 2023). This correlation suggests that countries need to export goods and services to pay for imports that are not domestically produced. Rouygarl and Ersungur (2023) demonstrate that throughout history, economic theorists have examined the influence of international trade on the Gross Domestic Product (GDP). This exploration has resulted in the export-led growth theory, indicating that when a country's export sales rise, its GDP will also increase. This can enhance economic welfare and promote societal prosperity (Tivatyi *et al.*, 2022). The relationship implies that a country's economy benefits from technological spillovers and other externalities due to favourable export performance. Lesotho, which emerged as a political entity during the post-*Lifaqane* period presents varying international trade scenarios, due to its historical trajectories, mainly as a small landlocked economy within South Africa (Maliehe 2021a). This geographical burden largely defines Lesotho's international trade directly or indirectly at different phases of its history.

This international trade history began with the interest of the missionaries, before the presence of British authority in Lesotho. By the 1840s, the Basotho people had become an integral component of the trade networks connecting the region's interior with coastal areas and global trade (Maliehe, 2021b). During the colonial period, Basotho's economic status and involvement in regional and global trade underwent a significant shift from a thriving trading nation to an insignificant source of cheap labour for South African mines. As mineral exploitation increased, the British authority adopted an assertively imperialist approach to extracting labour from the southern African region, including Basotho. This shift remained significant in Lesotho's production history, especially in the agricultural sector until its independence in 1966 (*Ibid*; see also, Amin, 1972).

Since Lesotho's independence in 1966, there have been strategic policies to manage its external trade dealings. These policies serve as an important instrument for coordinating medium-term development activities. Over the past few decades, there have been significant improvements in Lesotho's trade policy for various sectors (Malefane & Odhiambo, 2021). One such development was the establishment of the Lesotho National Development Corporation (LNDC) to mobilize resources for the development of manufacturing and processing industries. The manufacturing industry has seen a significant shift in trade policy with the implementation of Lesotho's export and growth strategy

(Makhetha *et al.*, 2022). This strategy has introduced several changes that have influenced trade policy in the trade and industry sectors. Some of the changes include expanding export products and market options, eliminating trade distortions, and safeguarding external competitiveness.

However, the positive effects of international trade on Lesotho's economy continue to be a concern due to its limited sources of growth. For example, since the introduction of the Structural Adjustment Programme (SAP) in the 1980s, there is no concrete evidence to demonstrate that Lesotho's international trade has yielded robust positive effects on the people, especially in income and poverty reduction. Similarly, Lesotho's trade flows reveal significant disparities in the contribution of exports and imports to GDP, with imports consistently accounting for a larger share of GDP. Lesotho's structural reforms appear to focus on export-led growth, which allowed its products to access larger and more diverse global markets. However, these efforts are sometimes circumscribed by the influence and interest of South Africa as well as the domestic political calculations. It is against this background that Lesotho's international trade is conducted within or through organizations such as the World Trade Organization (WTO), the Southern African Development Community (SADC), and the Southern Africa Customs Union (SACU).

This chapter will examine Lesotho's international trade relationship, its impact on growth and trade policies, and economic growth and trade flows from a historical perspective. This will be done within the gamut of some important economic and trade policies as defined by the domestic political trajectories and selected economic-related international organizations. The chapter is important in laying bare the historical conjuncture that defined Lesotho's international trade and the different factors that impact its trade patterns. It goes beyond the commonly discussed topics of export limitations or the apparel industry. Of importance to this chapter also is a historical review of identified obstacles of some of the international trade policies to the economic progress of Lesotho, which have not been fully explored.

In this discussion, we will cover various topics related to trade throughout Lesotho's history. Specifically, we will examine regional and global trade networks in the first half of the nineteenth century, the impact of colonialism on the Basotho people's role in international trade, the move towards import substitution industrialisation during the period of independence, the effects of privatisation on international trade dynamics, the transition to neoliberal capitalism and its impact on trade, and the balance between imports and exports. Finally, we will conclude our analysis. The history of international trade examined in this chapter is significant because it illuminates the interplay of political and social aspects of economic organisation. Contemporary explorations on economic development must appreciate economic embeddedness in societies. Attention must go beyond liberal ideals that focus on GDP growth alone. The history of international trade chronicled here shows that the Basotho had made remarkable progress in the pre-colonial period because there were fewer restrictions and barriers to the movement of goods and people. From the colonial period into the present, more restrictions came with the parameters of the nation-state.

### Regional and Global Trade Networks in the First Half of the Nineteenth Century

The Basotho people are the descendants of Bantu-speaking Iron Age communities from West Africa who had settled along the border of modern-day Nigeria and Cameroon. Linguists and historians postulate that these groups had settled in the Great Lakes by 300 BC, while some had reached the East African coast by the third century AD. Some made their way south by the fourth and fifth centuries. In southern Africa, they found the San and Khoi-Khoi hunter-gatherers

(Hamilton et al. 2012; Parsons 1993; Omer-Cooper 1987). By the sixteenth century, the Sotho-speaking communities had moved deeper into the region's central and southwestern parts. The branch, the Nguni-speaking communities, settled on the southeast fringes along the coast. The northern Sotho groups, particularly the Tswana (Batswana), occupied the dry plains of the Kalahari (Kgalagadi). The southern Sotho-speaking communities migrated into the southern Highveld, populating the area beyond the Vaal and Mohokare Rivers (Parsons, 1993; Omer-Cooper, 1987).

Politically, these clans organised themselves around small semi-autonomous chiefdoms. They distinguished themselves through clan totems, *liboko* (Mothibe, 2002a, pp. 3–10). They depended on crop production and herding livestock and supplemented these with hunting and collecting wild vegetables – male and female occupations, respectively. They engaged in reciprocal economic exchange within kinship and community networks of proximity. Within strangers from afar, they participated in long-distance trade. For example, they traded with the Nguni-speaking peoples of the east coast. They traded household utensils made from iron and copper, iron hoes, animal skins, cattle, tobacco and other goods (Eldredge, 1993, pp. 19–21).

In long-distance trade, beads were a medium of exchange. They were money. Their colour denoted different values. Eldredge argues that these beads were “fungible, could not easily be obtained, and could be given different values according to their size and colours”. They were “considered as money, to be employed only as a medium of trade with distant tribes and for the purchase of more expensive articles”. Additionally, the “beads facilitated the relay trade system in which groups that traded directly with one another but did not need each other's goods accepted compensation in beads that could be used elsewhere to obtain the goods they did need” (1993, p. 21).

In what became Lesotho, historical records demonstrate that the beads were introduced in the eighteenth century by Chief Mohlomi. Chief Mohlomi was a regionally renowned healer, philosopher, sage and traveller (Machobane, 1990). Early beads were named after him as the “beads of Mohlomi”. To this day, Basotho traditional healers use these beads as part of their regalia and they continue to be called, and literally, “Beads of Mohlomi”, in Sesotho, “*Sefaa sa Mohlomi*”. Oral tradition also recalls that beads were obtained through trade with communities on the eastern coast. When they were in short supply, a barter system facilitated exchanges. The AmaHlubi and the AmaZizi Nguni groups from the east coast “crossed the mountains to trade with the BaKoena as early as the seventeenth century; bringing knives, spatulas, and hoes to exchange for animal skins, cattle, and tobacco” (Eldredge, 1993, p. 21). These regional trade networks were disrupted by the Mfecane wars.<sup>1</sup>

In many respects, modern Lesotho is a political formation of the post-*Lifaqane* period. In the aftermath of the *Lifaqane* Wars in the 1820s, Moshoeshe and his followers settled on the Thaba-Bosiu mountain. By the popular origins of the Basotho nation, this is where the national building project began. Dominant narratives in the historiography of Lesotho attribute the rise of the Basotho nation to the leadership role played by Moshoeshe. Stories advance that he gathered people and provided for war refugees while co-opting and forming alliances with other dominant chiefdoms (Sanders, 1975; Thompson, 1975; Eldredge 1993; Mothibe, 2002). The rise of the Basotho nation coincided with the nineteenth-century global Evangelical anti-slave crusades and the British's

---

<sup>1</sup> These were regional upheavals that emanated from the east coast, known on the eastern side of the Drakensberg Mountains as the *Mfecane* Wars.

successful move in taking over the Cape after the Napoleonic Wars. Opposed to the British's anti-slavery regulations, the Dutch and their property and families left the Cape and moved into the region's interior. In Southern African historiography, their migration is known as the Great Trek, or the Boer Trek (Boer, means a "farmer" in the Afrikaans language (Feinstein, 2005).

The arrival of Europeans in the interior of Southern Africa had several impacts. In 1833, the Paris Evangelical Missionary Society (PEMS) arrived in Lesotho at the request of Moshoeshe. Upon their arrival, they promoted commodity production along with evangelism. When they arrived, the *Lifaqane* Wars had already disrupted existing trade networks, which the ordinary people depended on for economic survival through the chiefs. The chiefs controlled land and possessed large stocks, which they distributed through the *mafisa* cattle loaning system and *bohlanka* patron-client relations, which involved chiefs issuing bride-wealth to eligible young men wishing to marry but possessed no wealth (Mothibe, 2002).

The Afrikaner groups settled and conquered the African lands in the interior of the region. The Basotho, therefore, lost vast tracks of their land to the Afrikaners in the Free State. In the beginning, relations between the Afrikaners and the Basotho were characterized by trade exchanges, and many Basotho supplied labour to the Afrikaners in an attempt to build their wealth. The missionaries introduced several crop and animal varieties that transformed agricultural production. Judy Kimble notes that the Evangelical missionaries "... explicitly tie[d] the propagation of the gospel to their encouragement of commodity production, particularly wheat, the consumption of European goods, and (wage) labour for the white colonists" (1978, p. 102). The mission stations became vibrant commercial centres for a new class of converted Christians (Maliehe, 2017).

The missionaries introduced different agricultural technologies that included the ox-drawn plough, domestic animals, some fruit trees, vegetables, and grain varieties. Basotho mostly cultivated sorghum, which was their staple food and could withstand dry seasons. Maize was typically planted at the edges of the sorghum fields. According to Casalis (1861, p. 68), Maize seems to have been acquired from the Nguni people on the eastern coast who in turn had got it from the Portuguese, and later from the Cape Colony. In 1835, the missionaries planted the first wheat crop, but it failed. Despite that, the missionaries continued to promote it, particularly for trade, and from the 1840s, more Basotho were beginning to grow wheat. The missionaries also introduced merino sheep and angora goats for wool and cosmetic production. Pigs, cats, dogs, and poultry were new missionary additions (Casalis, 1861, p. 214; Eldredge, 1993, p. 68).

By the 1840s, the Basotho were central in the new trade networks that connected the interior of the region to the coastal regions and global trade it was connected to. The Basotho's adoption of the horses was indispensable. The horse revolutionized transportation in the region. Loads of trade articles across long distances could be transported within a short period (Aston, 1967, pp. 134-135). The Basotho quickly became a "horse people" due to their success in breeding, training, riding, and trading horses. By the 1850s, they had developed their breed, the "Basotho Pony" (Swart, 2010, p. 98). From the mid-1830s, most of their trade was conducted with the Afrikaners, who depended on the British to supply guns, ammunition, and other European goods. In return, the Afrikaners supplied the coastal areas with grain, wool, cattle, and skins, which they procured from Basotho (Casalis, 1861 p. 170; Germond, 1967 p. 441; Keegan, 1986). Since the arrival of the missionaries "... no fewer than 1, 500 head of horned cattle, 40, 000 sheep, 35, 000 goats, 200 horses, 300 rifles and ammunition in corresponding amounts of powder and lead, have been imported" (Germond, 1967, p. 439).

The Basotho bought consumer commodities such as soap, salt, arms and ammunition, and animals that included cattle and horses from the Afrikaners, and some manufactured goods such as clothes, utensils, iron hoes, and saddles from the British (Casalis, 1861 p. 170; Keegan, 1986, p. 198). In 1858, a British trader based at the Morija mission station sold to the Basotho about 1,000 overcoats, 220 pairs of trousers, 220 jackets, 1,200 shirts, 200 hats, 350 saddles, 500 bridles, 500 stirrups, 200 shoes, 7,300 knives, 8 ploughs, 1,500 hoes, 150 iron saucepans, and 6 wagons (Mothibe & Ntabeni 2002, p. 41). Basotho were so significant within the post-Lifaqane and post-Napoleonic wars regional trading network that the “Eastern Cape was heavily dependent on Basotho grain supplies, and during the frontier wars of the late 1840s and 1850s, enormous quantities of wheat were imported from Basutoland”, and by the 1850s, they “had also become large-scale exporters of livestock and horses” (Keegan, 1986, p. 198). In May 1854, Arbousset observed that “the mission station of Morija was a favourite hub for Basotho producers and their customers, particularly from the Orange Free State” (cited in Germond, 1967, p. 451).

In 1867, alluvial diamond deposits were discovered at the confluence of the Vaal and Harts Rivers in the dry plains west of Bloemfontein. By 1870, some 5,000 people flocked in from the region, and from around the world, to make their fortunes. Within two years, this population had increased to 50,000 (Shillington, 1989, p. 317). Individual diggers acquired small plots and used employed labour-intensive methods and technologies to unearth diamonds. Four major mining areas developed, and were subdivided into smaller claims with Kimberly being the largest (Shillington, 1989, p. 317). Basotho took advantage of the commercial opportunities that came with the exploitation of mineral resources by supplying labour and grain to the populations of the new mining towns (Germond, 1967, pp. 322-324; Murray, 1980, pp. 3-20; Murray, 1981). New labour migration patterns developed along with expanded trading activities. In southern African historiography, these early labour movements are termed “discretionary labour migration” due to people's degree of independence and voluntarism (Thabane, 2002, p. 108; Eldredge, 1993, p. 147).

Basutoland became the “granary” of some of the South African mining towns (Murray, 1980, pp. 3-20). In *Chronicles of Basutoland*, Paul Germond observed that in 1873 the “... populations which have profited most from the discovery of the diamond beds are those which, comparatively far from them, have assiduously applied themselves to agricultural pursuits.” And elsewhere: “The Basuto of our stations witness the daily influx in their midst of crowds of people, who do nothing else but buy the wheat and other food crops, with the object of selling them again to the mines” (1967, p. 322). In 1874, Germond noticed that: “Although far removed from the main current of events, the Basuto have nonetheless reaped their share of the general prosperity.” He observed: “The price of cereals has doubled, their flocks are multiplying and wool commands a good price; as money is easily earned, people are better clothed, the traditional hut is being superseded by more comfortable dwellings ...” (Germond, 1967, p. 322). Despite the wars and frequent droughts, Basotho had become so prosperous by the 1860s and 1870s that it worried the missionaries. They were scared that what they called “the love of gain” would turn Basotho away from their religious obligations and beliefs (Germond, 1967, p. 322). In many ways, the period between the 1820s and 1850s was one of remarkable economic, political, and social progress within the Basotho nation.



## 1.2 Colonialism and the Changing Role of Basotho in International Trade

Basotho's fortunes and role in the emergent regional and global trade began to change during the colonial period. From a burgeoning economy based on trade, the Basotho nation became a reservoir of cheap labour for South African mines. Following the exploitation of the minerals and increased labour demands, the British took an aggressively imperial approach to extracting labour from around the southern African region (Amin, 1972; Wolpe, 1972; Arrighi, 1973; Rodney, 1973; Feinstein, 2005). The history of how Basotho became a British subject is much longer. It begins with the arrival of the Afrikaners in the interior of the region. As shown, they settled in a territory that Moshoeshoe occupied. There were strategic and humane reasons why Moshoeshoe allowed them to stay temporarily on his land. He saw them as the buffer between his people and the mounted Griqua commandos and groups of the Ndebele of Mzilikazi, who had settled on the eastern parts of the region. In the Sesotho philosophy of *Botho* (*Ubuntu*) and culture, travellers were given hospitality (Maliehe & Schraten, 2022, pp. 69-94).

While some Afrikaner groups passed to Natal and the Transvaal, some groups remained, conquering Basotho's lands, becoming the Orange River Sovereignty in 1848, later Orange Free State. Major conflicts between Moshoeshoe and the settlers emerged when the latter began apportioning and selling land among themselves. Eugen Casalis advised Moshoeshoe to seek British intervention, which ultimately led to the establishment of new boundaries instead of the return of Basotho land. Unfortunately, by the 1860s, the Basotho had lost approximately 80% of their arable land to Afrikaners (Lelimo, 1998). In 1868, Philip Wodehouse, a British High Commissioner in the Cape, finally took Lesotho under his charge. In 1871, Lesotho was annexed by the Cape Colony. The colonial authorities acted with a rationale that due to the land that it had lost, Lesotho would never be a viable economy. It was annexed into the Cape to be incorporated and governed through the Department of Native Affairs (Thabane, 2017, pp. 1-22). However, the Cape took an aggressive strategy to extract labour from Lesotho, as well as other African communities in the region. Towards this end, the Cape passed the Disarmament Bill in 1879 (The Peace Preservation Act) and doubled taxation, the Hut Tax. The aim was to force men to earn wages in the mines (Maliehe, 2014). As anticipated, some groups of Basotho rebelled against the Cape in the Gun War (1880-81) of southern African history (Maliehe, 2021b, pp. 60-63).

Failing to disarm the Basotho, the British withdrew from Lesotho; however, fearing the Afrikaner aggressions across the new borders, the Basotho renegotiated with the British. From 1884, Lesotho became a British Crown Colony until independence in 1966. The country had to finance its administration through taxes, and in 1889, Lesotho was integrated into the Customs Union Convention (CUC) between the Cape Colony and the Free State (Maliehe, 2021a, pp. 24-47). By the early twentieth century, tax contributed the highest share of the country's total revenue at about £103,000 in 1916, while customs revenues accounted for about £51,000 the same year. Revenue from trading licences contributed about £6,900 in the same period (Union Office of Census and Statistics, 1920, 926).

The new colonial administration enforced the Mercantile Law of 1871 when Lesotho was first annexed to the Cape. From then on, it became obligatory to apply for trading licenses to conduct trade. These were the roots of the formalization of trade, and the exclusion of the Basotho, who had to supply labour to the mines in South Africa (Maliehe, 2021b). Within the country, this law halted the Basotho's participation in emergent international trade networks. From the 1890s, the Free State

imposed tariffs on Basotho's exports and finally stopped importing Basotho's livestock on allegations that they carried diseases that infected their animals. When railway lines connecting the coastal regions with the interior were completed in the 1890s, the British Colonies and Afrikaner Republics began to import cheaper grain from overseas at the expense of Basotho grain (Murray, 1980, pp. 3-20).

By the turn of the century, Lesotho's position as the main exporter of grain and livestock to South Africa had ended. Commerce, retail and wholesale, became the main pillar of the local economy. European traders, particularly the Frasers Company came to dominate local commerce. By the 1930s, there were three Basotho with trading licenses, sixteen Indians, and 175 Europeans with trading licenses (Pim, 1935, p. 60). Once Europeans took over commerce, the content and structure of imports and exports changed. Lesotho's dependence on consumer commodities from overseas and South Africa was cemented (Maliche, 2014, pp. 28-45).

### **1.3 Independence, Developmental State, and Import Substitution Industrialisation**

In 1966, the Basotho National Party (BNP) became the country's first government of independent Lesotho. Chief Leabua Jonathan was the Prime Minister from 1966 until 1986 when he was overthrown by the military. At the time when Lesotho gained independence, former colonies had to choose between socialism and capitalism. With long-established relations with Britain, Lesotho opted for capitalism to develop its economy. Britain was part of the liberal Western bloc, which followed capitalism. At the time, these countries were known as the First World countries, and the Eastern Bloc, the Second World countries. The rest of the Global South was referred to as the Third World (Hart & Hann, 2009, pp. 1-16).

After the Second World War, industrializing nations of the capitalist North followed the Keynesian Welfare, or Developmental State, model. Under the stewardship of the Bretton Woods institutions, the International Bank for Reconstruction and Development (later World Bank), the International Monetary Fund (IMF), the United Nations and its windows, and the General Agreement on Trade and Tariffs (later the World Trade Organisation, WTO), shepherd the world into a new era of industrialization, with countries choosing either Export-Led Industrialisation (ELI) or Import Substitution Industrialisation, ISI (Hart *et al.*, 2010, pp. 1-17). In world economic history and development, the Asian Tigers are historically renowned to have followed the former model. Many of the so-called Third World countries opted for the import substitution model, Lesotho being one of them.

In 1966, more than three-quarters of Lesotho's imports came from South Africa. These imports included the following: foodstuffs, livestock, beverages and tobacco, crude materials, mineral fuels and lubricants, animal and vegetable oil, chemicals, manufactured goods, machinery and transport equipment, and other commodities (Ward, 1967, pp. 364). According to Ward, 'There [was] virtually no domestic industry . . .' (*Ibid*). Lesotho's imports from South Africa increased by 32% from R17,335 million to R22,917 million between 1965 and 1966 (*Ibid*).

On the contrary, Lesotho's exports were significantly lower than the importation figures as shown above the same year the country attained independence from Britain. For instance, the country's exports amounted to about R4,385 million. This figure was about 7% in 1965. Lesotho's exports comprised the following: livestock, grain, legumes, wool and mohair, hides and skins, and diamonds.

Being the highest, wool and mohair constituted approximately 64% of the country's exports (Ward, 1967, pp. 365). Table 1.1 below shows Lesotho's accumulating trade deficit between 1961 and 1968.

**Table 1.1: Lesotho's Growing Foreign Trade Deficit (in Rand), 1961 - 1968**

	1961	1965	1966	1967	1968	% Change from 1961 to 1968
<b>Imports</b>	61,20 000	17,525 000	22,917 000	23,800 000	23,938 000	291
<b>Exports</b>	3,020 000	4,690 000	4,389 000	4,168 000	3,380 000	12
<b>Trade Deficit</b>	3,100 000	12,835 000	18,530 000	19,632 000	20,550 000	563

Adapted from: *Lesotho First Five-Year Development Plan, 1970/1-1974/5, p. 15.*

To develop the country's economy after independence, the government of the time established the Lesotho National Development Corporation (LNDC) in 1967 through Act No. 20 of 1967. LNDC's main objective was to attract Foreign Direct Investment (FDI). The corporation worked to industrialise the country's economy by developing the non-agricultural sectors of the economy. Agriculture and Services contributed the largest share of Lesotho's GDP in the financial year 1967/68. Manufacturing, construction, and mining contributed the lowest share of the country's GDP in the same financial year.<sup>2</sup> Table 1.2 below demonstrates the contribution of various economic sectors to the country's economy at independence.

**Table 1:1 Composition of GDP by Sectors, 1967/68**

Sectors	GDP Contribution	Weight
Primary Sector		41%
Agriculture	39.0%	
Mining and Quarries	2.0%	
Secondary Sector		2.4%
Manufacturing	0.7%	
Construction	1.7%	
Tertiary Sector		56.6%
Services (including Government Services)	56.6%	

<sup>2</sup> *Lesotho First Five-Year Development Plan, 1970/1-1974/5, p. 15.*

Gross Domestic Product	100%	100%
------------------------	------	------

*Adapted from: Lesotho First Five-Year Development Plan, 1970/1-1974/5, p. 5.*

The LNDC was mandated to develop these sectors of the economy with the main aim of increasing job opportunities for a growing population. The government's target was to create about 10,000 to 15,000 new jobs<sup>4</sup>. The government also attempted to diversify the economy to reduce pressure on the public sector. As Table 1.2 above demonstrates, taken together with the Services, Government Services accounted for the largest share (at about 57%) of the country's GDP. The government acknowledged that agriculture could not be the answer to all of Lesotho's economic challenges. It noted that: "The limited agricultural resources of the country cannot provide gainful employment opportunities." Therefore, in the long-term

. . . non-agricultural productive activities . . . will become a major path for economic development. The development of non-agricultural activities is, therefore, an integral part of the long-term development perspective . . . The establishment in 1967 of the Lesotho National Development Corporation . . . is a deceive step in this direction.<sup>3</sup>

The government gave the LNDC sites to establish buildings in selected parts of Lesotho. These sites were in the west urban areas of the Maseru, Maputsoe, Mafeteng, Teyateyaneng, and Mohale's Hoek districts.<sup>4</sup> These areas form part of Lesotho's lowlands, with more amenities. To this day, these premises are used as business offices, warehouses, and industrial shells meant for the creation of a vibrant capitalist economy. These buildings are rented out to foreign investors, who are given many investment incentives, as well as to local investors with capital above R250,000 (Tsikoane *et al.*, 2014, pp. 68).<sup>5</sup>

Between 1966 and 1970, the BNP government received generous support from the South African apartheid government. However, when the country went for elections in 1970, the BNP arguably lost the elections to the Basotho Congress Party, the major opposition party and vanguard of the liberation struggle. The Prime Minister, Chief Leabua Jonathan, declared a State of Emergency, suspended the constitution and violently harassed members of the opposition parties. South Africa withdrew its support to Lesotho (Khaketla, 1971). With these changing foreign relations, Lesotho looked to the Global North and denounced apartheid. The country adopted the UN's protocols on human rights. From then on, the country attracted huge volumes of international aid to develop various sectors of the economy. Between 1975 and 1984, Lesotho was receiving assistance from 27 bilateral sources and 72 international agencies and non-governmental organizations (Ferguson, 1994, pp. 3-7). Ferguson supported that: "In 1979, Lesotho received some \$64 million in official development assistance", which was "about \$49 for every man, woman, and a child in the country – more, that is, (on a per capita basis) than Somalia, Ethiopia, or Sudan, and more than Chad and Mali put together" (*Ibid*, 8). Pule (2002a, 217) observes that "combined, aid money exceeded locally raised revenue" in the 1970s and 1980s.

The government through the LNDC attracted foreign investors and international aid to establish industries that produce pottery, umbrellas, sheepskin products, candles, electric lamps, furniture, and

<sup>3</sup> *Lesotho First Five-Year Development Plan, 1970/1-1974/5, p. 25.*

<sup>4</sup> *Lesotho Second Five-Year Development Plan, 1975/76 - 1979/80 Volume II, pp. 83-84.*

<sup>5</sup> See also, *Lesotho National Development Corporation Annual Report, 2000/01, p. 2; Lesotho Second Five-Year Development Plan, 1975/76 - 1979/80 Volume I, p. 3.*

hand-loomed rugs.<sup>6</sup> By 1978, the LNDC had attracted private investment of approximately R2.5million. It also assisted in the formation of 36 local manufacturing enterprises. There were nine companies involved in agricultural production, including canning, milling, distilling, and weaving.<sup>7</sup> Out of all the companies involved in the construction industry, 16 produced building materials themselves, while the remaining businesses focused on processing products that were imported. It was also instrumental in establishing hotels, lodges, and shopping centres in the country's urban areas.<sup>8</sup> The government established the Lesotho Electricity Corporation, Lesotho Airways Corporation, Lesotho Telecommunications Corporation, Produce Marketing Corporation, Livestock Marketing Corporation, Lesotho Bank, Lesotho National Bus Services and Lesotho Tourist Corporation.<sup>9</sup> Despite these efforts, it continued to be difficult for Lesotho to establish an independent and self-sufficient economy to produce for the local market and address perpetual international trade deficits.

#### **1.4 Neo-liberal Globalisation and New Dynamics in Lesotho's Participation in Regional and Global Trade**

By the 1980s, relations between Lesotho and South Africa had reached their lowest ebb. The main source of conflict stemmed from disagreements on the Lesotho Highlands Water Treaty. From the 1950s, South Africa had identified Lesotho as a country that would potentially supply it with water, particularly the manufacturing and mining epicentres of the Pretoria-Witwatersrand-Vereeniging Area, or just the PWV Area. However, the two countries had persistent disagreements on various terms in the design and implementation of the project (2000, pp. 633-654). Two feasibility studies were conducted in the 1950s, and in the 1960s, but the two countries could not agree on its cost. Meanwhile, the demand for water in Gauteng continued to rise. In 1979 another feasibility study was conducted. This study was followed by another in 1983 (Thabane, 2000). In the 1980s, South Africa faced a severe water crisis and tried to force Lesotho's leader from power through destabilization tactics. In January 1986, South Africa closed its borders with Lesotho on the pretext that the latter was accommodating and supporting the *uMkhonto we Sizwe* combatants, the paramilitary arm of the African National Congress, ANC (Pule, 2002b, p. 185).

As shown, Lesotho imports virtually everything from and through South Africa; when food supplies and fuel were running out, a seven-man delegation, led by Major General J. M. Lekhanya, went to Pretoria to request that the border blockade be lifted, but it was not granted. Upon their return to Lesotho, they surrounded the government offices, drove the civil servants out, and took the Prime Minister under house arrest. Soon after, the national radio station, announced that there had been a military take-over, and the blockade was immediately lifted (Machobane, 1990).

The Highlands Water Project had two major components. One aspect consisted of supplying water to South Africa and another, the production of a hydro-power plant for electricity consumption in Lesotho. South Africa was to fund the former and Lesotho the latter. Lesotho had to source funding through bilateral and multilateral borrowing from international commercial banks and other governments (Matlosa, 1991, pp. 17-25). To access such loans, Lesotho had to acquire the International Monetary Fund's seal of approval with all its conditions. This ensured that Lesotho, like

---

<sup>6</sup> *Lesotho Second Five-Year Development Plan, 1975/76 -1979/80 Volume II*, p. 13.

<sup>7</sup> *Lesotho Third Five-Year Development Plan, 1980-1985*, p. 218.

<sup>8</sup> *Lesotho Third Five-Year Development Plan, 1980-1985*, p. 217.

<sup>9</sup> *Lesotho Second Five-Year Development Plan, 1975/76 - 1979/80 Volume II*, pp. 4-5.

other countries, especially the so-called “Third World” countries, was credit-worthy by adopting its Structural Adjustment Programmes (SAPs). This certified the country’s ability and willingness to repay its debts. Lesotho concluded negotiations with the IMF to adopt the programmes in 1987 and implemented an austerity programme in 1988 (*Ibid*).

The military took over governance in 1986 but was pressured by the international community to transition to a multiparty democracy in 1993. Therefore, the Congress Party won elections with a significant majority in 1993 (Ajulu, 1995). To develop the country’s economy, they continued with the World Bank’s privatization programmes. When the National Party took government in 1966, the dominant capitalist model was the developmental state model led by industrialized economies of the West. At the time, a competing model was socialism or communism of the East Bloc, which collapsed in 1989. The new model, the self-regulating market (or just the market economy), also known as the Washington Consensus, or neoliberalism, gained centre stage in a global economic organization (Hart et al., 2010, pp. 1-17).

In this way, Lesotho joined another phase of global economic history geared towards giving private businesses a wider role in economic development. The government privatized various state-owned enterprises as a step towards this direction. The State increased Foreign Direct Investment (FDI) and promoted several industries and sectors with the potential to promote exports and increase employment within the country. Among these sectors was the garment and textiles industry, which peaked in the 2000s. They observed that:

The GOL is pursuing an export-led economic growth strategy documented in the Poverty Reduction and Growth Facility (PRGF) programme signed in collaboration with the International Monetary Fund (IMF)...The export promotion strategy takes advantage of duty-free access and exemptions on the rules of origin offered for the US market under the Africa Growth and Opportunities Act (AGOA). Lesotho’s textile manufacturing sub-sector has grown significantly since the inception of the Act...Exports to the US have more than doubled from M1486.4 million in 2000 before AGOA to M3906.0 million in 2002. In addition, the US is now the largest destination of Lesotho’s exports since 2000, while SACU is the second largest. Employment in the manufacturing sector also rose after the introduction of AGOA.<sup>10</sup> It jumped from roughly 26,000 in 2000 to approximately 50,000 in 2003 after new firms opened businesses and existing ones expanded their operations.<sup>11</sup>

The liberalization of economies was also at a regional level. As shown, Lesotho joined the Customs Union Convention in 1891, which was renamed the Customs Union Agreement in 1910 when the newly formed Union of South Africa entered into a trade agreement with the British High Commission Territories of Bechuanaland (Botswana), Swaziland (Eswatini), and Basutoland (Lesotho). It was further renamed the Southern African Customs Union (SACU) in 1969. South West Africa, Namibia, joined in 1990 and SACU’s headquarters was established there in 2002 (Maliehe, 2021, pp. 28-45).

Apart from membership in SACU, Lesotho was a founding member of the Southern African Development Community (SADC). The leaders of the countries that had attained independence in the region adopted the Lusaka Declaration in 1980 as a means to cooperate economically and fight

---

<sup>10</sup> [https://www.centralbank.org.ls/images/Publications/ANNUAL\\_REPORTS/2021\\_CBL\\_Annual\\_Report\\_-\\_LR\\_-\\_Singles\\_-\\_17.11.2022\\_-\\_29\\_November\\_2022.pdf](https://www.centralbank.org.ls/images/Publications/ANNUAL_REPORTS/2021_CBL_Annual_Report_-_LR_-_Singles_-_17.11.2022_-_29_November_2022.pdf).

<sup>11</sup> [https://www.centralbank.org.ls/images/Publications/ANNUAL\\_REPORTS/2021\\_CBL\\_Annual\\_Report\\_-\\_LR\\_-\\_Singles\\_-\\_17.11.2022\\_-\\_29\\_November\\_2022.pdf](https://www.centralbank.org.ls/images/Publications/ANNUAL_REPORTS/2021_CBL_Annual_Report_-_LR_-_Singles_-_17.11.2022_-_29_November_2022.pdf).

colonial and apartheid rule in Southern Africa. With its headquarters in Botswana, SADC was committed to free trade and economic cooperation within the region. With the transition to market-driven economies, the two economic blocs decided to align with the new global economic organization and free various barriers to regional economic cooperation. The Central Bank of Lesotho (2003, 9) supports that:

Lesotho continued to demonstrate a strong commitment to economic cooperation through its membership and participation in the activities of regional economic organizations. These include the CMA, Southern African Customs Union (SACU)<sup>2</sup>, and the Southern African Development Community (SADC). SACU countries have continued their economic reform programmes, where trade and investment liberalization have played key roles.<sup>12</sup>

Despite attempts to improve the country's productive sectors in the promotion of the export-led policy, the country's balance of payments maintained a historical and normative deficit. The World Integrated Trade Solution, the World Bank's trade soft, demonstrates that Lesotho has been experiencing perpetual trade deficits at fluctuating rates. For example, in 2021, it illustrated that Lesotho's consumer goods imports recorded about US\$ 752 million while the country's exports amounted to US\$ 74 million.<sup>13</sup> In 2023, it recorded that: "Lesotho had a total export of 948,535.19 in thousands of US\$ and total imports of 1,667,948.70 in thousands of US\$ leading to a negative table balance of -719,413.51 in thousands of US\$".<sup>14</sup> Despite the country's economic challenges and imbalances in imports and exports, Lesotho's highlands water project and mining activities continue to contribute significantly toward the country's economic improvements.

## 1.5 Conclusion

This chapter has examined Lesotho's international trade relationship, its impact on growth and trade policies, and economic growth and trade flows from a historical perspective. Beginning from the first half of the nineteenth century, the chapter examined the historical trajectories of Lesotho's international trade, focusing on the major policies and the political economy contours that defined them. The country moved from a significant partner within the developing regional trading network to a supplier of labour to the new mining sites in South Africa. From independence, there has been a significant shift in trade policy with the implementation of Lesotho's export and growth strategy with effects on the manufacturing industry. However, the positive effects of international trade on Lesotho's economy continue to elude the country. The government expanded foreign direct investment (FDI) and supported several businesses and sectors that had the potential to boost exports, and the US became Lesotho's top export market, with SACU coming in second. However, the country's balance of payments continued to show a historical and normative deficit despite efforts to strengthen its productive sectors and promote an export-led policy. This calls for an urgent review of Lesotho's international trade policy.

---

<sup>12</sup>[https://www.centralbank.org.ls/images/Publications/Research/Reports/Annual/CBL\\_Annual\\_Report\\_2003.pdf](https://www.centralbank.org.ls/images/Publications/Research/Reports/Annual/CBL_Annual_Report_2003.pdf)

<sup>13</sup><https://wits.worldbank.org/CountrySnapshot/en/LSO/textview#:~:text=Overall%20Exports%20and%20Imports%20or,are%20imported%20from%20119%20countries.>

<sup>14</sup><https://wits.worldbank.org/CountryProfile/en/LSO>

## References

- Ajulu, R. (1995). "A Historical Background to Lesotho's Election of 1993", in Roger Southall and Tšoeu Petlane (eds), *Democratisation and Demilitarisation in Lesotho: The General Election of 1993 and its Aftermath*, Pretoria: African Institute of South Africa.
- Amin, S. (1972). "Underdevelopment and Dependence in Africa – Origins and Contemporary Forms". *Journal of Modern African Studies*, 10(4), 503-524.
- Arrighi, G. (1973). "Labour Supplies in Historical Perspective: A Study of the Proletarianization of the African Peasantry in Rhodesia," in G. Arrighi and J. Saul (eds), *Essays on the Political Economy of Africa*, New York: Monthly Review Press.
- Ashton, H. (1967). *The Basuto: A Social Study of Traditional and Modern Lesotho*, London: Oxford University Press.
- Casalis, E. (1861). *The Basutos: Or, Twenty Years in South Africa*, London: James Nisbet & Co. Berners Street.
- Eldredge, E. A. (1993). *A South African Kingdom: The Pursuit of Security in Nineteenth Century Lesotho*, Cambridge: Cambridge University Press.
- Feinstein, C. H. (2005). *An Economic History of South Africa: Conquest, Discrimination, and Development*, Cambridge: Cambridge University Press.
- Ferguson, J. (1994). *The Anti-Politics Machine: "Development", Depoliticisation, and Bureaucratic Power in Lesotho*, London: University of Minnesota Press.
- Germond, R. C. (1967). *Chronicles of Basutoland: A Running Commentary on the Events of the Years 1830-1902 by the French Protestant Missionaries in Southern Africa*, Morija: Morija Sesuto Book Depot.
- Hart, K. & Chris, H. (2009). "Introduction: Learning from Polanyi 1", in C. Hann & K. Hart (eds). *Market and Society: The Great Transformation Today*, Cambridge: Cambridge University Press.
- Hart, K., J. Lavelle & A. D. Cattani. (2010). "Building the Human Economy Together", in Keith Hart, Jean-Louis Lavelle and Antonio David Cattani (eds), *The Human Economy: A Citizen's Guide*, Cambridge: Polity Press.
- Keegan, T. (1986). "Trade, Accumulation and Impoverishment: Mercantile Capital and the Economic Transformation of Lesotho and the Conquered Territory, 1870-1920", *Journal of Southern African Studies*, 12(2), 196-216.
- Khaketla, B. M. (1971). *Lesotho 1970: An African Coup under the Microscope*, London: C. Hurst & Co.
- Kimble, J. (1978). "Towards an Understanding of the Political Economy of Lesotho: The Origins of Commodity Production and Migrant Labour, 1830-1885", Dissertation submitted in partial fulfilment of the requirements for the Master of Arts degree in the Department of History, National University of Lesotho, Faculty of Humanities.



- Lelimo, M. M. (1998). *The Question of Lesotho's Conquered Territory: It's Time for an Answer* Morija: Morija Museum and Archives.
- Machobane, L. B. B. J. (1990). *Government and Change in Lesotho, 1800-1966: A Study of Political Institutions*, London: Macmillan Press LTD.
- Makhetha, L. S., E.N.A.O. Doodoo-Amoo & T. Mohaese. (2022). "Theory, Practice and DFI Institutional Design: Case of the Lesotho National Development Corporation." *Journal of Economics & Management Research*, 3(163), 2-5.
- Malefane, M. R., & N. M. Odhiambo. (2021). "Trade Openness and Economic Growth: Empirical Evidence from Lesotho." *Global Business Review*, 22(5): 1103-1119.
- Maliehe, S. & J. Schraten. (2022). "The Roots of Xenophobia in 19<sup>th</sup> Century Imperialism", *Acta Academia*, 54(2), 69-94.
- Maliehe, S. (2014). "An Obscured Narrative in the Political Economy of Colonial Commerce in Lesotho, 1870-1966", *HISTORIA*, 59(2): 28-45.
- Maliehe, S. (2017). "Money and Markets for and against the People: The Rise and Fall of Basotho's Pre-colonial Economic Independence, 1833-1930s", in K. Hart (ed.) *Money in the Human Economy*, Oxford: Berghahn Books.
- Maliehe, S. (2021a). "A Historical Context of Lesotho's Integration into the 1910 Customs Union Agreement, 1870s-1910s." *Southern Journal for Contemporary History*, 46(2): 24-47.
- Maliehe, S. (2021b). *Commerce as Politics: The Two Centuries of Basotho Struggle for Economic Independence*, Oxford: Berghahn Books.
- Matlosa, K. (1991). "Structural Adjustment Programmes and the Employment Challenge in Lesotho", *South African Political and Economic Monthly*, 4(7): 17-25.
- Mothibe, T., & M. Ntabeni. (2002). "The Role of the Missionaries, Boers and British in Social and Territorial Changes, 1833-1868," in N. W. Pule and M. Thabane (eds), *Essays on Aspects of the Political Economy of Lesotho, 1500-2000*, Roma: Department of History, National University of Lesotho.
- Mothibe, T. (2002). "State and Society, 1824-1833", in N. W. Pule and M. Thabane (eds), *Essays on Aspects of the Political Economy of Lesotho, 1500-2000*, Roma: Department of History, National University of Lesotho.
- Murray, C. (1980). "From Granary to Labour Reserve: An Economic History of Lesotho", *South African Labour Bulletin*, 6(4): 3-20.
- Murray, C. (1981). *Families Divided: The Impact of Migrant Labour in Lesotho*, Cambridge: Cambridge University Press.
- Pim, A. (1935). *Financial and Economic Position of Basutoland: Report of the Commission Appointed by the Secretary of State for Dominion Affairs*, London: His Majesty's Stationery Office.

- Pule, N. W. (2002). "Lesotho in Southern Africa", in N. W. Pule and M. Thabane (eds), *Essays on Aspects of the Political Economy of Lesotho, 1500-2000*, Roma: Department of History, National University of Lesotho.
- Pule, N. W. (2002). "Politics since Independence", in N. W. Pule and M. Thabane (eds), *Essays on Aspects of the Political Economy of Lesotho, 1500-2000*, Roma: Department of History, National University of Lesotho.
- Rodney, W. (1973). *How Europe Underdeveloped Africa*, London: Bogle-L'Ouverture Publications.
- RouygarI, N. & Ş. M. Ersungur. (2023). "The Effect of Trade Costs on the Foreign Trade Size: A Comparative Study of High-Income Countries and Upper-Middle-Income Countries." *Current Perspectives in Social Sciences*, 27(1): 86-96.
- Sanders, P. (1975). *Moshoeshoe: Chief of the Sotho*, London: Heinemann.
- Shillington, K. (1989). *History of Africa*, London: Macmillan Education LTD.
- Singh, R., & A. Aftab. (2023). "Revisiting Economic Growth and Trade Openness: An Empirical Analysis of Major Trading Nations." *Journal of Comparative International Management*, 26(1): 123-139.
- Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*. Edinburg: William Strahan.
- Swart, S. (2010). *Riding High: Horses, Humans and History in South Africa*, Johannesburg: Wit University Press.
- Thabane, M. (2000). "Shifts from Old to New Social and Ecological Environments in the Lesotho Highlands Water Scheme; Relocating Residents of the Mohale Dam Area", *Journal of Southern African Studies*, 26(4): 633-654.
- Thabane, M. (2002). "Aspects of Colonial Economy and Society, 1868-1966," in N. W. Pule and M. Thabane (eds), *Essays on Aspects of the Political Economy of Lesotho, 1500-2000*, Roma: Department of History, National University of Lesotho.
- Thabane, M. (2017). "Towards an Identification of Historical Roots of Lesotho's Political Instability", in M. Thabane (ed.), *Towards an Anatomy of Persistent Political Instability in Lesotho, 1966-2016*. Roma: National University of Lesotho.
- Thompson, L. (1975). *Survival in Two Worlds: Moshoeshoe, 1786-1870*, Oxford: Clarendon Press.
- Tivaty, K. S., J. M. Shou & K. N'Souvi. (2022). "Study on import and export-led economic growth: Cases of Botswana, Namibia, South Africa, and Zimbabwe in Southern Africa." *Open Journal of Business and Management*, 10(2): 670-700.
- Tumelo, T., T. H. Mothibe, M. E. N. Ntho & D. Maleleka. (2014). *Consolidating Democratic Governance in Southern Africa: Lesotho (EISA Research Report No.32)*, <http://www.content.eisa.org.za/pdf/rr32.pdf>.
- Union Office of Census and Statistics. (1920). *Official Year Book of the Union and Basutoland, Bechuanaland Protectorate and Swaziland, No.3 -1919*, Pretoria: Ministry of the Interior.

- Ward, M. (1967). "Economic Independence for Lesotho?", *The Journal of African Studies*, 5(3): 355-368.
- Wolpe, H. (1972). "Capitalism and Cheap Labour-Power in South Africa: From Segregation to Apartheid," *Economy and Society*, 1(4): 425-454.

**CHAPTER TWO**  
**THE LEGAL AND INSTITUTIONAL FRAMEWORKS OF**  
**INTERNATIONAL TRADE IN LESOTHO**

**Tsotang Tsietsi**

Faculty of Law, National University of Lesotho

Email: tg.tsietsi@nul.ls

**&**

**Letzadzo Kometsi**

Faculty of Law, National University of Lesotho

Email: letzadzo@gmail.com

## 2.1. Background

It is undoubtable that legal and institutional frameworks are imperative for supporting international trade. This was the very impetus for the creation of the General Agreement on Tariffs and Trade (GATT) way back in 1945. There was a realisation, by the global community, that the unchecked powers of governments to adopt beggar-thy-neighbour trade policies had been a major contributor to the Great Depression (1929 – 1939) as well as to the Second World War itself (1939 – 1945). Thus, at the Bretton Woods Conference of 1944, world leaders advocated for, among others, the creation of global rules of trade and an International Trade Organisation (ITO). Along with the two other Bretton Woods institutions (the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD)), the ITO was meant to bring order to the chaos that existed prior to, and following, World War Two. This would be by providing for uniform and consented rules governing international trade, as well as ensuring adherence to those rules. Unfortunately, the ITO never saw the light of day. This was primarily due to the lack of concurrence by the United States' administration. This influenced other global leaders to be antipathetic to participating in such a venture that did not have the support of the global super-power of the time (WTO, 1998).

However, instead of throwing the whole idea out, twenty-three nations agreed on rules that would regulate international trade by providing for improved transparency and consistency. The goal was that, with these components (transparency and consistency), there would be a positive influence on trade and investment flows, which would contribute to the rebuilding of the global economy. This was the understanding throughout the development of the GATT: that trade rules were key to global development. The weakness of a normative framework that lacked institutional backing was rectified by the eventual creation of the World Trade Organization (WTO) and its sophisticated legal architecture that encompasses areas such as intellectual property, trade in services, as well as dispute resolution. This means that the international trading system is supported by trade rules and an institutional framework. Lesotho is a member of the WTO and, thus, bound by its trading rules.

Besides international (including regional and sub-regional) rules on trade, governments also promulgate domestic trading rules. Public international law sees international law and municipal law as operating on two separate legal planes. Thus, for international law to be applicable in a municipal legal system, there needs to be firm direction in that regard. Some states follow monism, which is a system where international law immediately becomes part and parcel of a domestic legal system upon ratification or accession to a treaty. Other states are dualist in nature. Dualism is predicated on the principle that international law has to be incorporated into the municipal legal system in order for it to be effective therein. This is usually by way of the enactment of implementing legislation. Lesotho is an example of a Dualist State. This means that Lesotho should ensure the domestication of its international obligations. The hierarchy of international law to municipal law means that, where there is a contradiction between international obligations and municipal obligations, the latter must give way to the former. This is enunciated in the principle of *pacta sunt servanda* in customary international law, which means that international obligations must be executed in good faith (Vienna Convention on the Law of Treaties, 1969). Therefore, in addition to being bound by international and regional international frameworks for trade, Lesotho has also created domestic instruments in implementation of such arrangements. The expectation is that the latter must not contradict the former. Otherwise, Lesotho would be falling foul of her international obligations, which could place her at risk of international dispute settlement procedures.

This chapter outlines the normative and institutional infrastructure for trade as applicable to Lesotho. This is achieved by identifying the relevant multilateral, regional, sub-regional, and domestic trade rules. Commentary is provided on the opportunities and challenges that are presented by these rules. Policy recommendations are highlighted where necessary.

## **2.2. The International Dimensions of the Legal and Institutional Frameworks for Trade in Lesotho**

This section identifies the multilateral frameworks for international trade that Lesotho has been a party to. These are the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) agreements. Although there is another international organisation that has trade-related instruments – the World Customs Organization (WCO) - its instruments have no binding force on members. This, thus, leaves the WTO as the sole organisation that is responsible for global trade regulation (i.e., rulemaking and enforcement).

### **2.2.1. The General Agreement on Tariffs and Trade (GATT)**

As described in section 4.1, above, the General Agreement on Tariffs and Trade (GATT) was created by twenty-three states in 1947. The GATT contains three parts:

- Part 1 contains only two articles: Article I, which is the Most Favoured Nation (MFN) obligation. This prohibits discrimination based on the origins of a product, and Article II, which provides for the submission of tariff schedules. These were fully binding on all GATT contracting parties;
- Part 2 contains many substantive provisions. However, it was subject to the grandfather clause, which meant that pre-existing legislation that was contrary to any provision in Part 2 would take precedence (Protocol on the Provisional Application of the GATT, 1945). Many developed countries had pre-existing legislation that they could keep as a result of this loophole. Many developing countries, which had not yet constructed their trade frameworks, did not have any or significant pre-existing legislation that they could maintain.
- Part 3 are the administrative provisions.

In 1947, when the GATT was created, Lesotho was still called Basutoland and was a British Protectorate. This means that Lesotho was not at the table at the time of the formation of the rules that are encompassed in the GATT. It did not have political or economic autonomy. Lesotho only gained independence on 4 October 1966. It did not become a contracting party to the GATT for twenty-two years, only becoming a member on 8 January 1988. This was because, despite its political sovereignty, it was still not economically free, being largely dependent on the Republic of South Africa (Cobbe, 1983. Lesotho was even under a Structural Adjustment Programme (SAP) of the International Monetary Fund at the time of joining the GATT (Setai, 1991). This, again, serves to show that Lesotho was not completely in control of her economic and trade policy, as this would have been dictated by the so-called Washington Consensus (Williamson, 2009). Such programmes have been, time and again, argued to have been disastrous for African countries (Riddell, 1992). What, then, did joining the GATT mean for Lesotho under these circumstances? For one, some of the rules, such as those that sought to facilitate trade, would have offered Lesotho some benefits. This is because, as a land-locked country, Lesotho trade suffers from logistical bottlenecks that affect the ease and costs of trading. Thus, articles such as Article IV on freedom of transit could offer Lesotho

some reprieve from her trade facilitation challenges. Other aspects of the agreement that offered some benefits also arise in Part IV of the GATT. This was added during the Kenney Round of tariff negotiations (1964 – 1967). These reflect the so-called “special and differential treatment” (S&DT) in the GATT system. The provisions allowed less developed GATT parties to enjoy benefits, such as longer time periods for implementing commitments, access to technical assistance and capacity building from more developed members, and access to enhanced trade opportunities with developed countries, with respect to products of their particular trade interest (Bagwell and Staiger, (Eds), 2016).

However, the preponderant theme with the GATT is that the rules that were contained therein had been created with developed economies in mind and were, thus, inappropriate for countries such as Lesotho. For example, Article II of the GATT required contracting state parties to submit schedules of concessions containing their treatment of foreign products. Least Developed Countries (LDCs), such as Lesotho, might not have had the expertise to make prudent decisions on how, where, and to what extent to grant market access. As it stands, they are challenged as far as industrialisation is concerned. Their firms struggle to withstand competition from more competitive imports. This is due to a myriad of factors, for example, deficiencies in access to finance, skills, and technology. Secondly, the GATT provided members with access to trade remedies to protect themselves from unlawful trade practices, such as the ability to levy anti-dumping and countervailing duties (Article IV). However, a country like Lesotho has not had, and still does not have, the capacity to undertake the complicated and resource-heavy investigations that are required for it to utilise these trade remedies. Therefore, even if her market would be at risk from such practices, there are limited chances that she could wield these protections and benefit from membership of the GATT. The third and fourth examples relate to the regime on quantitative restrictions (Article XI) and subsidies (Article XVI). Again here we see regimes that do not favour Least Developed Countries whose economies were still staggering. These countries would need to have access to quantitative restrictions, as trade policy instruments, while they are developing. However, the GATT took this away from them by banning the use of such measures. Despite their economic weaknesses, they would have required the freedom to install subsidy programmes, as far as their capacity would allow. However, again this was not allowed under the GATT. Instead, the regime allowed for developed countries to maintain their subsidies but prohibited developing countries from doing the same. This has contributed to firms in the lesser-developed nations facing stiff competition from subsidised exports from the West. This is particularly detrimental in the agricultural sector.

In terms of the institutions, the GATT was an agreement without a formal institutional structure. This was due to the rejection of the International Trade Organization. The parties, thus, made decisions collectively as the CONTRACTING PARTIES. These decisions were made by consensus. This meant that, effectively, every party could veto a decision. This was different from the IMF and the IBRD systems where there was weighted voting. However, the practical effect of this equality of members is unclear. How likely would it have been for Lesotho to object to any purported action on the basis of its own interests? Our guess is highly unlikely, given its economic and political position.

Because of these shortcomings, the GATT did not assist Lesotho much to develop its trade or economy, in general. This legacy continues even today, as this is still the main instrument that regulates international trade in goods.

### 2.2.2. The World Trade Organization's (WTO) Agreements

The GATT continued to be developed by virtue of several negotiation rounds that took place from 1947. The Uruguay Round was the eighth round of negotiations. It was launched on 20 September 1986. Sometime during the negotiations, a proposal was tabled, and accepted, to revisit the idea of creating an institution to oversee the international trading rules. There being agreement, the World Trade Organization (WTO) was created by virtue of the Marrakesh Agreement of 1994. Lesotho became a member on 31 May 1995.

The WTO's normative and institutional framework for trade is far more expansive than what obtained under the GATT. To begin with, several new agreements were added as annexes to the Marrakesh Agreement. GATT 1947 remains part of the WTO regime (Annex IA to the Marrakech Agreement). WTO members had to accept all of the agreements as a "single package." This meant that they could not opt out of any of them, if they wanted to be WTO members and to keep any benefits accruing from market access gains under the GATT. This was a difficult position to put countries such as Lesotho, in. This is because, as LDCs, there are surely some agreements that they would have wanted to opt out of, given their particular trade interests and capacity levels. The next section outlines some of the agreements and provides a brief commentary on what they meant for Lesotho.

#### Annex 1A– The Multilateral Agreements on Trade in Goods

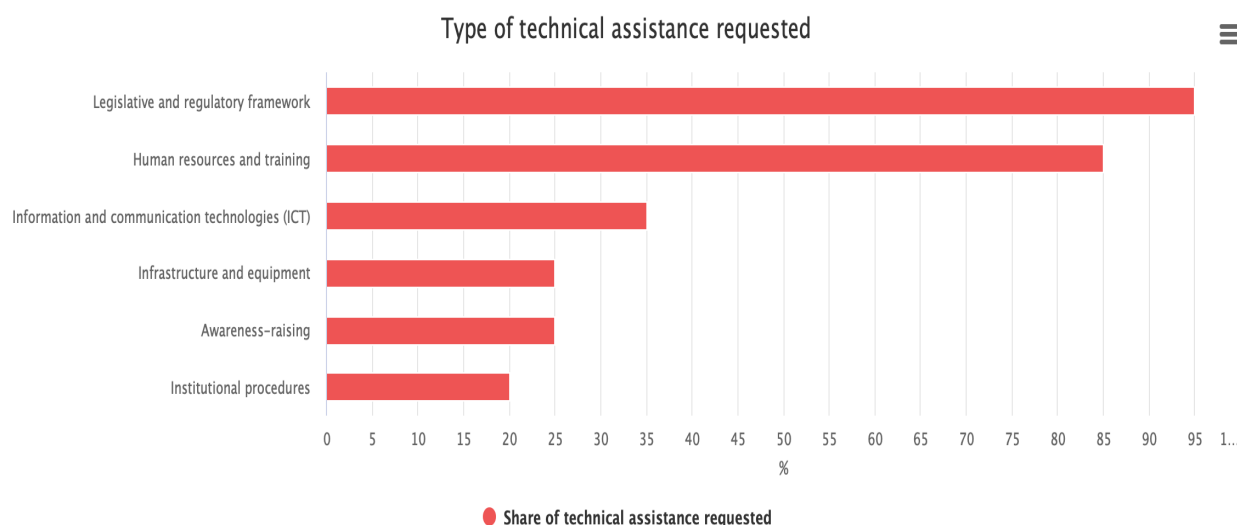
These cover the agreements on:

- Agriculture
- Sanitary and Phytosanitary (SPS) Measures
- Textiles and Clothing
- Technical Barriers to Trade (TBT)
- Trade-Related Investment Measures
- Anti-Dumping Agreement
- Customs Valuation
- Pre-Shipment Inspection
- Rules of Origin
- Import Licensing
- Subsidies and Countervailing Measures
- Safeguard Measures
- Trade Facilitation

These agreements have been difficult for Lesotho to apply. For starters, we can make an example of the trade facilitation agreements (the agreements on: Customs Valuation, Pre-Shipment Inspection, Rules of Origin, Import Licensing and Trade Facilitation). These, it can reasonably be inferred, should be beneficial for a land-locked country, such as Lesotho. Any agreement that requires the application of measures that reduce the time and the costs of trade should be particularly welcomed by a land-locked LDC. However, Lesotho has not been able to apply their contents to address trade facilitation challenges at its borders. This is partly due to deficiencies in its capacity (human, technical, financial etc) to implement the measures. The table below shows the areas of technical assistance requests that Lesotho has notified:



**Figure 2.1: Type of Technical Assistance Requested**



Similarly, with the SPS and TBT agreements, LDCs like Lesotho simply do not have the facilities and technical expertise to optimally apply these agreements. Of special note are the agreements on agriculture and on textiles and clothing. These sectors are of great importance to developing countries. Over 40% of Lesotho's exports consists of textiles and clothing (IMF, 2022). Agriculture is yet another important sector for the country, not only for exports (wool and mohair, medicinal cannabis and geraniums form important export products), but also for food security. However, instead of these agreements supporting the development of these sectors in Lesotho, the share of both textiles and clothing and agriculture has been steadily declining. For clothing, the agreement stimulated inward investments from Asia when Lesotho was not using its quotas. However, with the expiration of the agreement, there was massive disinvestment that the country has not fully recovered from (Ayoki, 2016).

Annex 1B is the General Agreement on Trade in Services. Services are perceived as offering developing countries significant opportunities for export and economic development. However, Lesotho, given its capacity constraints, was not well equipped to negotiate services strategically, and therefore opened up most of the services to foreign competition. Now many service sectors in Lesotho are foreign dominated and domestic services firms find it difficult to establish and compete, let alone to export to other territories.

Annex 2 is the Understanding on Rules and Procedures Governing the Settlement of Disputes. One of the criticisms of the GATT was the limited development of its dispute settlement clauses (contained in Articles XXII and XXIII). The WTO's dispute settlement mechanism is far more sophisticated, with developed institutions (Panels and the Appellate Body), a concretization of procedural steps, strict time limits for each stage in the dispute resolution process, and the employment of reverse consensus to adopt panel and appellate body reports, to ensure higher prospects of implementation. Lesotho's participation in WTO dispute resolution has been limited. There has not been a Lesotho panellist or Appellate Body member. Furthermore, a glimpse at WTO dispute settlement records shows that Lesotho has never initiated any dispute resolution processes in the WTO. Therefore, Lesotho has not derived direct value from these processes.

Finally, the World Trade Organization consists of an extensive institutional framework. The main policy-making organ is the Ministerial Conference. This body meets at least once every two years to take high level policy decisions. In between these meetings, the General Council is responsible for the day to day running of the organisation. It also sits as the Trade Policy Review Body (Annex 3) and as the Dispute Settlement Body (DSB) (Annex 2). There are also other specialised councils (such as the Council for Trade in Goods, Council for Trade in Services, Council for Trade-Related Aspects of Intellectual Property Rights, Council for Trade-Related Investment Measures) and committees (for example, Trade Negotiation Committees) and working groups. Besides these, Member States have created their own coalition negotiating groups in the WTO. Lesotho participates in the following groups:

- African, Caribbean and Pacific (ACP)
- African
- Land-Locked Developing Countries
- G-90
- Least Developed Countries

These Groups are important for small LDCs, like Lesotho, because they assist to amplify its negotiating position in the wider organization. Like-minded countries can discuss and adopt a common position and push for certain outcomes within the organisation. On its own, Lesotho would not have much clout.

## **2.3. Regional Dimensions of the Legal and Institutional Frameworks for Trade in Lesotho**

### **2.3.1. The African Continental Free Trade Agreement (AfCFTA)**

Lesotho became a member of the, then, Organisation of African Unity (OAU) on 31 October 1966, twenty-seven days after its independence. The OAU (1963 – 1999) was transformed into the African Union (AU) in 2000. The AU adopted Agenda 2063: “The Africa we Want” in 2013. This is an ambitious plan to

*prioritise inclusive social and economic development, continental and regional integration, democratic governance and peace and security amongst other issues aimed at repositioning Africa to becoming a dominant player in the global arena. (African Union, 2013)*

One of the flagship projects of the Agenda was the creation of the African Continental Free Trade Area (AfCFTA). The negotiations towards this were launched in 2015 in Johannesburg. The agreement was signed in 2018 in Kigali. The agreement entered into force in May 2019. Lesotho ratified it on 27 November 2020. The start of trading had originally been scheduled for 2020, but this was postponed, on account of the Covid-19 pandemic of that year. Trading began in 2021. To date the agreement has been signed by 54, and ratified by 47, AU Member States. Its purpose is to reduce barriers to trade among African countries. The agreement currently has 47 members (Tralac, 2023). The structure of the agreement is as follows: there is the founding treaty that creates the AfCFTA. This is supplemented by stand-alone protocols. Phase 1 of the negotiations saw the entry into force of three protocols alongside the AfCFTA agreement:

- Protocol on trade in goods;
- Protocol on trade in services and;

- Protocol on dispute resolution.

Phase 2 of the negotiations has seen the adoption of protocols on: competition, investment, and intellectual property. The texts for these were adopted in February 2023. The negotiations on two further protocols remain outstanding for completion; these are the protocols on women and youth as well as on digital trade. These protocols indicate the ambitiousness of the AfCFTA project. Not only has a free trade area (FTA) been established, but it also contains disciplines on new areas of trade law. Furthermore, the Women and Youth Protocol exhibit an awareness of some of the pressing and uniquely African issues. When it is eventually concluded, Africa will be the only region that has a comprehensive protocol on these demographics. However, the ambitiousness of the project may be a blessing or it may be a curse. It remains to be seen whether the members will be able to implement the measures. The AfCFTA largely replicates the WTO rules. Thus, countries that struggle to implement WTO rules will also struggle to implement these rules. This might represent a missed opportunity to have the agreements Africanised. It also remains to be seen whether non-compliance will have any legal consequences. There have been indications, from the history of the regional economic communities (RECs) that African states are not litigious and hesitate to bring disputes against each other.

In addition, the mere existence of the AfCFTA does not mean that all members will benefit to the same extent. Likely, a small subset of African countries with productive capacity, such as the Republic of South Africa, Kenya, Egypt, Nigeria etc, are likely to be the early birds to benefit from the AfCFTA. Lesotho may delay to experience benefits, in particular, if she does not install the appropriate domestic policies and laws to be able to leverage the agreement to accelerate industrialization and trade. So far Lesotho is party to the founding treaty as well as the Phase 1 protocols. This is because the phase 2 protocols have not yet entered into force. With respect to phase 1 instruments, Lesotho could potentially stand to benefit from increased market access for goods and services to the participating African countries. However, this is not a given because market access does not automatically translate into market gains. Lesotho has not built up its productive capacities. By not addressing supply side constraints, it has limited prospects of benefitting from the agreements. Secondly, general infrastructural deficiencies on the continent (most notably transport infrastructure), further limits the ability for goods to be moved across the continent. This is exacerbated by the outstanding trade facilitation barriers. In the absence of these deficits being addressed, Lesotho will not have much to gain from its participation in this agreement.

As for the newly concluded phase 2 agreements, Lesotho may struggle to implement them. This is largely because of its own under-developed domestic frameworks on these issues. For example, Lesotho does not have a comprehensive investment policy or legislation. Instead, its investment policy and laws are dispersed across several instruments. This makes it cumbersome and costly for investors to discover and to comply. Neither does it have any competition related regulatory framework. The importance of these topics for trade cannot be understated. It is commendable that African countries have moved on to include these new areas in their trade relations; beyond the traditional areas of trade in goods and trade in services. This will support trade, in both goods and in services. Lesotho's regulatory retardation sets her back from fully participating or enjoying benefits under these arrangements. The regulatory gaps, thus, need to be urgently addressed.

### **2.3.2. The Southern African Development Community (SADC)**

The African Union recognises eight regional economic communities (RECs). These are: the Arab Maghreb Union (UMA), Common Market for Eastern and Southern Africa (COMESA), Community of Sahel–Saharan States (CEN–SAD), the East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD) and the Southern African Development Community (SADC). The latter was established in 1992 by the SADC Declaration and Treaty. The SADC Treaty, in Article 22, provides that the mechanism for cooperating in specific areas will be by way of protocols. Based on this, the SADC members have concluded 26 protocols. Unlike the WTO's notion of a single undertaking, where a member will be bound by all of the organization's agreements, in SADC, each protocol has its own signatory clause. This means that it is open for members to elect which protocols they want to participate in. In relation to trade, Lesotho is a member of the SADC Protocol on trade in goods and the SADC protocol on trade in services.

#### ***A. The SADC Protocol on Trade in Goods***

The SADC Protocol on Trade in Goods (Trade Protocol) of 1996 establishes SADC as a free trade area (FTA). The FTA was launched in 2008 with 12 of SADC's membership. Akin to the General Agreement on Trade in Goods, it seeks to support trade liberalisation by, *inter alia*, controlling measures such as tariffs (Articles 4 and 5) and quantitative restrictions (Articles 7 and 8) and ensuring goods benefit from Most Favoured Nation Treatment and National Treatment (Article 28 and Article 11, respectively).

The Trade Protocol has seen an elimination of tariffs across most trade in SADC. This affords Lesotho an opportunity of market access for its products. However, Lesotho has not managed to experience much benefit from membership in this agreement. Firstly, market access needs to go hand-in-hand with productive capacity, which is where Lesotho continues to experience challenges. As it stands, approximately 80% of consumed products are imported from South Africa. Thus, the agreement is, primarily, affording consumers access to products from outside the country, but has not led to the creation of a significant number of producers who are producing for this regional market. This does not augur well for Lesotho's balance of payments. Secondly, the agreement gives members access to trade remedies for dumping, subsidies and also as safeguard measures (Article 9). However, as alluded to earlier, Lesotho does not have the capacity to implement such measures, due to limited technical resources. Thirdly, the agreement allows the protection of infant industries. Lesotho could strategically use this to stimulate infant industries in sectors where it may have an advantage, such as horticulture. Namibia and Botswana have, recently, done the same, in the interests of food security and of reducing their reliance on south African imports. However, Lesotho is yet to do so.

#### ***B. The SADC Protocol on Trade in Services***

This protocol was signed in 2012 and entered into force on 13 January 2022. It seeks to achieve the progressive liberalization of trade in services (Article 16) by, *inter alia*, ensuring the extension of Most Favoured Nation Treatment to SADC services (Article 4), transparency (Article 8), control of monopolies and exclusive service suppliers (Article 12). As a balancing factor, it also recognises the right to regulate (Article 5). Members submit their schedules of concessions displaying any market access restrictions (Article 14) or national treatment limitations (Article 15). The organization identified six service sectors for initial liberalisation. These are: communication, construction,

energy-related services, financial services, transport, and tourism. Lesotho did not have much to offer by way of offers in the negotiations, because it had already, largely, removed barriers in these services under the General Agreement on Trade in Services. However, it may still stand to benefit from the liberalisation of tourism services, which is an area of a comparative advantage given its natural resource endowments. However, it remains incumbent upon the state to instal the necessary policies and laws that will allow it to do so. A second round of negotiations was launched in 2021 and focuses on the negotiation of a further six service sectors, namely: business services; distribution; educational, health and social services; environmental services; and recreational, cultural and sporting services. Again, Lesotho may not have much to offer in this phase, for the same reasons elaborated above. However, it can still make requests of other trading partners and concentrate on positioning itself to benefit from this expanding market access.

### **2.3.3. The Southern African Customs Union (SACU)**

The Southern African Customs Union is heralded as the oldest customs union in the world; having its roots traceable back to a customs union agreement of 1889. However, the current agreement, between the Republic of South Africa, Botswana, eSwatini, Lesotho and Namibia was established in 2002. The main objectives of the agreement were:

- To establish a common commercial policy among the parties;
- To share revenue from trade, in a manner that takes cognizance of developmental objectives.

Lesotho has been a major beneficiary of this customs union agreement. At some point some 60% of its revenue was derived from SACU receipts. However, this has been shrinking over the years, for various reasons, including the countries entering into free trade arrangements with other nations. In exchange for these gains, Lesotho (and the other smaller SACU nations, excluding South Africa) have allowed South Africa, in the form of its International Trade Commission (ITAC) to be the *de facto* SACU Tariff Board. This means that it is ITAC that determines the trade policy of all members. Being a national body, it is primarily motivated by South African interests, and not the particular interests of the other members. This may not be a sustainable model in the long run.

## **2.4. The Domestic Dimensions of the Legal and Institutional Frameworks for Trade in Lesotho**

International conventions on trade provide the material not only for the development of domestic laws dealing with trade, but the actual rules and principles dealing with every phase of a trade relationship between states and/or their citizens. Business and trade involve the establishment of trade entities and their administration. Once established, the entities should be able to transact and thereby execute commercial agreements. In the event that the agreements are breached, one way or the other, there must be a dispute resolution mechanism in place to resolve the disputes. The interrelationship between establishment of businesses, the transactional relationships between such entities including trade between states and an efficient dispute resolution system provide a conducive environment for trade. If the environment is safe, then it can attract investment and lead to a **flourish** of trade. This section provides an **overview** of key instruments regulating trade in Lesotho.

#### **2.4.1. The Constitution of Lesotho (1993)**

The constitution provides under article (1) that Lesotho “shall endeavour to ensure that every person has the opportunity to gain his living by work which he freely chooses or accepts.” This article provides for the opportunity to work. Thus, the article that is always interpreted to imply that people have a right to choose their trade and that, therefore, they can contract on any legal transactions. Article 17 of the constitution protects persons from arbitrary seizure of property if the property is used for purposes of agricultural development. There are other articles in the constitution that deal with the protection of rights of workers and the protection of women and children. Such issues arise depending on the type of business entity established.

In Lesotho business may be done through: sole proprietorships, conducted by individuals, partnerships (inclusive of consortiums and joint ventures), trusts, private or public limited liability companies, companies or branches of foreign companies (external companies), single shareholding companies, non-profit companies, co-operatives, and statutory corporations. All these business entities are governed by different laws and have varied tax implications.

- ***Sole proprietors***

This is a form of business involving one and only one owner. No special legal documents are needed to establish a sole proprietorship apart from the normal legal documents such as licences and actually it is not even a distinct legal entity, separate from its owner. As a result, the owner is liable for all of the debts and liabilities of the business, and has total control of the business.

The trader as a matter of law must apply to be registered with the Lesotho Revenue Authority for Individual Income Tax (IIT). Tax implications are both positive and negative. On the one hand, tax losses may be offset against the trader’s other income. On the other hand, profits from the business are taxed at the sole trader’s marginal income tax rate which may be higher than the business tax rate.

#### ***A. Partnerships***

Partner Partnership agreements must be reduced to writing and signed by all the partners before a Notary Public. These agreements may be registered in the Deeds Registry under the *Partnerships Proclamation of 1957*. A partnership agreement must also be cancelled in writing. Partnerships are restricted to twenty (20) persons. Partnerships are governed by the above-mentioned Proclamation, common law as well as private agreement (the partnership agreement).

Partnerships do not pay tax. Rather, it is the partners that pay tax. This means that partnership losses can be offset against the partner’s other income. Partnerships are often used for income-splitting purposes.

#### ***B. Companies***

The Companies Act 2011 (and the 2012 Companies Regulations) provides for the incorporation of three main categories of companies in Lesotho, namely public companies, private companies and non-profit making companies. The One Stop Business Facilitation Centre (OBFC) provides guidance as to the registration steps and licensing services. It goes on to provide categories of businesses that parties can register and blue print articles of association that suit certain categories of businesses. Parties are free to develop their own articles of association though.

A company may be public (name ends in Limited, Ltd) or private (name ends in Proprietary Limited, (Pty) Ltd). Both private and public companies are governed by the Companies Act, 2011. A private company is the most common vehicle for operating a business in Lesotho. It must have at least one (1) director. There need not be any Lesotho resident directors. Private limited companies are not permitted to offer shares to the public. They are, however, the most popular structures for a small business. Public limited companies may offer shares to the public to raise capital.

Not all foreign-owned companies can assume the identity of Lesotho companies, though incorporated in Lesotho. A *subsidiary* of a foreign company is regarded as a Lesotho company. The legal liability of the parent company is limited to the amount of capital committed (together with any guarantees provided). A *branch* of a foreign company is regarded as an external company if it establishes a place of business or owns immovable property in Lesotho, and must register as such. The legal liabilities of a branch are not limited to the extent of its Lesotho assets. Both a Lesotho company and a branch operation are subject to the provisions of the Companies Act, 2011.

#### **2.4.2. Licensing**

Licensing of business in Lesotho is governed by the Business Licensing Act 2019. The stated objectives of the 2019 Act are to: promote private sector development through a conducive investment climate; facilitate the inclusion of all types of business into the formal sector; facilitate speedy issuing of licences and registrations of businesses; simplify and streamline licensing and registration procedures; and facilitate the registration of business names.

The protected business activities include inter alia: international road freight, transport logistics, motor dealerships, real estate, clearing agencies, warehousing, retail sales of household fuels, hairdressing, beauty treatments, vehicle repair, photocopying, plumbing and electrical services, construction and retail sales of alcohol and meat.

The Act deals with the medium, small and micro enterprises. Its objective is to promote private sector development through a conducive business climate by facilitating the inclusion of all types of business into the formal business sector.

The Regulations issued on 28 August (No. 71 of 2020) go further than the Act in strictly reserving 47 business activities for indigenous Basotho people. The Regulations also make distinctions between licences held by foreign enterprises and those held by Lesotho citizens in ways which appear to be inconsistent with the Act. Regulation 34 and its schedule 16 specifically make mention of the areas affected by the Act.

Regulation 34 (1) provides,

*... business activities set out in schedule 16 shall be reserved exclusively for citizens of Lesotho, excluding a naturalised and registered citizen of Lesotho; (2) a license issued to a naturalised or registered citizen of Lesotho or an enterprise of which a proprietor, shareholder or director is not a citizen of Lesotho shall remain in force until the expiry of the license ...*

Schedule 16 of the regulations in its paragraph 31 mentions the business enterprises that are preserved for indigenous Basotho. The language of the Act, with the use of the words "exclusive" and "shall" makes the application of the section peremptory and leaves no room for exceptions. The word "shall"

is used in law to impose an obligation. Whenever it is used it implies strict application of the law. The language changes somewhat in the subsequent Amendment to the Regulations.

**Amendment of regulation 34 by the Business Licensing and Registration (amendment) Regulations 2021.**

Regulation 6 (4) thereof provides that upon application by an indigenous citizen, the Licensing Officer may issue a license under sub-regulation 1 to a foreign business which is in a joint venture or partnership with an enterprise wholly owned by indigenous citizens. Regulation 5 gives the Licensing Officer or Registrar the power to revoke the license if the said partnership or joint venture is found to be pretentious and intended just to assist a foreign citizen to operate the business.

The Minister may, on the recommendation of the licensing officer exempt any category of the business activities from the application of this Act to the extent and on such conditions as may be prescribed. This is another avenue that is worth pursuing, especially if regard is had to the category of the business in terms of capital investment and the employment creation. The Minister may be persuaded to exclude such business enterprises as they may fall in the category of medium enterprises and have a long history of trade in the country.

Revocation of the license can be done in terms of section 12 of the Act. The section outlines a process that deals with both the procedure of dealing with such revocations and the bases for revocation. In terms of the section, the owner of the business will be called to a hearing where they will be called to show cause why their licenses shall not be revoked based on a number of factors, also outlined in the section. Section 12 (i) for example, provides that a license can be suspended or cancelled if it can be shown that a party has or is operating contrary to the prescribed conditions of guidelines, for instance, if guidelines prohibit trading in certain items.

In terms of the Act, therefore, the licence can be revoked but due process of the law should be followed. The registrar may order closure in terms of section 26 (3) read with section 15 (10). Section 30 (1) b and d deals with appeals for a cancelled license.

This protectionist Act can be challenged on the basis of discrimination and risks compliance of the country with the international standards set by the WTO and regional agreements. The law should at the very least distinguish between the various categories of business and reserve for Basotho a certain percentage in shareholding and for medium business enterprises, for example. The discrimination appears where a distinction is drawn between foreign citizens and indigenous citizens. Section 19 read with Chapter 4 of the Constitution does not make a distinction between the so-called indigenous citizens and other citizens. On the other hand, the section would seem to create an impression that indigenous persons can only do small businesses and cannot venture into big businesses. The latter perspective does not augur well for the participation of indigenous people in the macro economics.

The vehicle for the implementation of the Business Licensing Act is the One Stop Business Facilitation Centre (OBFC). This is the most important institution for the facilitation of registration and regulation of business entities in the country and is housed under the Ministry of trade. As a business facilitation centre, it administers a number of Acts of Parliament intended for the registration and regulation of business entities and their activities. This institutional arrangement is complemented by various institutions established under specific laws and that assist in the implementation of such laws. Other sectors have their own sector specific requirements for licensing.



### ***C. Mines and Minerals Act No. 4 of 2005***

The mining sector is governed by the Mines and Minerals Act (the “Act”). The requirements for licensing are stipulated in section 20 of the Act and they include inter alia the following:

- i. A copy of the current prospecting license;*
- ii. The original application documents of the current prospecting license;*
- iii. Documents proving that the Company has secured access to adequate financial resources, technical competence and experience to carry out effective prospecting operations;*
- iv. A proposed work program to be carried out during the licensed period and estimated costs of the proposed work program;*
- v. Confirmation that the proposed program of prospecting is adequate and makes proper provisions for environmental protection; and*
- vi. Confirmation that the proposed prospecting area is not the same or does not overlap with an existing prospecting area or minerals permit area in respect of the same mineral or associated mineral.*

Section 24(1) states that a renewal shall be valid for a period not exceeding one year.

### ***D. Drugs of Abuse Act No. 5 of 2008***

The registration of Cannabis business is governed by the Drugs of Abuse Act 2008. The regulations have been passed in terms of the Act to regulate the registration and licensing of businesses wishing to do the business of cannabis production and distribution. The Drugs of Abuse (Cannabis) Regulations, 2018 deal directly with requirements for registration and the packaging standards to be observed in the business of cannabis.

There are 8 types of licenses issued in the industry:

- i. Operator license from cultivation to manufacturing
- ii. Cultivator
- iii. Testing laboratory
- iv. Transport (seven companies in operations here, but there are no Basotho companies doing transport)
- v. Non-academic research
- vi. Supply and distribution sort of agency business/ broker/distribution
- vii. Manufacturing (Dynamics started like that)
- viii. Procurement

### **• Agricultural Marketing (Distribution of Dairy Products)' Regulations, Legal Notice No.241 of 1992**

The regulations implement the Agricultural Marketing Act (No. 26 of 1967). They deal with the granting of permits for the business of selling dairy products outside or inside Lesotho. Section 6. (1) provides that “Any illegally imported dairy products shall be confiscated by customs officer in accordance with the Customs and Excise act 1982.” In addition, a person who contravenes the regulations is also liable to prescribed sanctions.

### **2.4.3 Transactional**

Certain goods imported into Lesotho from outside of SACU require permits. Under the Export and Import Control Act (No. 16 of 1984) as amended, all importers are required to register with MTICM

in order to be eligible for permits. All goods brought into Lesotho are subject to customs control. The declaration form used is the Single Administrative Document (SAD) that was introduced in 2006. The SAD applies to all imports and exports regardless of origin or destination. All imports and exports are subject to transactional agreements between buyers and sellers in terms of varied legal sources depending on the subject matter of sale. Where a contract of sale involving a party from Lesotho is entered either with a citizen of Lesotho or a party from outside Lesotho that is subject to the law of Lesotho, that law will come from several, albeit clustered, sources.

There are contract laws regulating contract farming agreements in Lesotho, albeit indirectly, and they include the *Agricultural Marketing Act* and its amendments and by-laws, the *Labour Code Order*, the *Majority Ordinance (No. 62 of 1829)*, the *Children's Protection and Welfare Act (No. 7 of 2011)*, the *Education Act (No. 3 of 2010)* which regulate the age at which a person may enter into a contract; the *Cooperative Societies Act (No. 6 of 2000)* which establishes and regulates producer cooperatives; the *Environmental Act (No. 10 of 2008)* and its regulations, which ensures that farming and related activities in the agricultural sector are carried out in an environmentally responsible and sustainable manner; the *Weights and Measures Act (No. 22 of 1980)* which stipulates that all contracts containing weights and measures are in accordance with the provisions of the Act.

Contracts involving sale of rights in land or landed property are partly regulated by the Land Act (No. 8 2010). The purpose of the Act is to provide for the grant of titles to land, the conversion of titles to land, the better securing of titles to land, the administration of land, the expropriation of land for public purposes, the grant of servitudes, the creation of land courts and the settlement of disputes relating to land; systematic regularization and adjudication; and for connected purposes.

The Land Act (No. 8 2010) makes provision for ensuring sustainable use of agricultural land and stipulates that the lessee shall use and take steps to ensure that the land used for arable purposes is farmed in accordance with the practices of good husbandry customarily used in the area and that the land used for pastoral purposes is used in a sustainable manner in accordance with the best principles of pastoralism practiced in the area. This requirement is likely to translate into the agreement that both buyers and sellers may enter into in contract farming. At the very least it would be a condition qualifying other terms of the contract.

The Forestry Act (No. 17 of 1998) makes a provision that land should be made available for forestry activities, including fuel wood production for purposes of domestic supply seen as a means to preserve indigenous shrubs and trees that protect land from soil erosion. It also provides for the protection and preservation of these forests. Contract farming activities may induce vegetation clearing for working space and for firewood. Further to this, contract farming activities may include the growing of forestry products. As such, and the conclusion remains, any contract farming agreements dealing with production of forestry products should be aligned with this Act.

The Labour Code (No. 24 of 1992) has provisions regarding the age of majority for purposes of employment. It generally forbids engagement of minors as workers. The Act also regulates the contracts of employment and the contract of service. Part IX of the Act has general provisions regarding the employment of women, young persons and children. It provides in section 124 (Minimum age for employment) that,

*No child shall be employed or work in any commercial or industrial undertaking other than a private undertaking in which only members of the child's own family, up to five in total number, are employed.*

The Labour Code should be read together with the *Age of Majority Ordinance (No. 62 of 1829)* the *Children's Protection and Welfare Act (No. 7 of 2011)* and the *Education Act (No.3 of 2010)*.

#### **2.4.4 Formation of sale contracts and their terms**

The law that governs private business transactions in Lesotho is generally to be found in Common law. There are a few provisions of the Common law that make the law of Lesotho unique, at least as compared to Civil Law jurisdictions.

In English law, a contract without valuable consideration in the sense of *quid pro quo* is not enforceable. In other words, English law enforces bargains and not promises. This issue visited our courts as early as 1830 in the seminal case of **Louisa and Protector of Slaves v Van der Berg (1830 1 M 471)**. This is a case that involved *stipulatio alteri* (contracts for the benefit of third parties). The Court maintained in this case that *stipulatio alteri* is enforceable in South Africa in terms of Roman Dutch Law whereas it would not be enforceable in English law as long as it is not gratuitous. Somehow the English doctrine persisted throughout the years until 1919 in the case of **Conradie v Rossouw (1919 AD 279)** when the Appellate Division rejected the view that the doctrine formed part of South African law in unanimity.

In the case of **Boloko v Lehlaka (1974-75 LLR)**, a stepmother had made an undertaking to pay compensation in the form of six cattle for the abduction and seduction committed by her step son of over 40 years of age. In holding that the stepmother was liable to pay these damages, the court held as follows:

*It seems to me that the respondent father under both custom and civil law is entitled to sue and succeed on this agreement. I think that in this instance the parties have entered into a binding contract, for all the essential elements are present, viz. that they have seriously intended to bind themselves, and that the agreement is not contrary to customary law, statutory law, nor is it contrary to public policy or good morals either in its formation or performance or purpose.*

All other cases seem to have been decided on the basis of the principle of *justa causa*- (just cause), which is to the effect that any agreement entered into with a serious intention to be bound is enforceable. So the courts of Lesotho have consistently applied the common law wherever our statutes are silent.

In Lesotho there is no legislation in the form of the Civil Jurisdiction and Judgments Act of 1982 UK, which incorporates International Conventions on litigation. Regulation on service of process and execution of judgments is clustered. It can be found in the Court Rules; in the Reciprocal enforcement of Judgments Proclamation (No. 2 of 1922) and the 1923 Rules; the 1960 Service of Foreign Process Proclamation and in case law and in the New York Convention for the enforcement of foreign arbitral awards. As demonstrated above, the rights of individuals can be realised depending on the affected legal subject, the approach to protection of the said rights and the enforceability of the decisions of the tribunals seized with the matters in each case. The legislation has made inroads into the general

rules as found in the Common law. Such inroads are, however, treated as exceptions without altering the general position of the law *per se*.

#### **2.4.5 Dispute Resolution**

Foreign companies in Lesotho have instigated protective tariffs, port congestion in South Africa, customs valuation above invoice prices, import permits, and inefficient bureaucracy as barriers to trade. Transporting goods to and from Lesotho introduces a difficulty for traders since Lesotho has no direct sea access and has a very small international airport. However, quality facilities are available in Durban, South Africa, and can be accessed by road and rail networks. In addition, modern export trade law in Lesotho checks international trade by issuing regulatory barriers which include, amongst others, the Agricultural Marketing Act which controls the Importation of certain foods into the country, the department of Marketing under the umbrella of the Ministry of Trade and Industry monitors the level of production of these commodities and issues import licenses in the event of short supply and more importantly, importers are required to obtain licenses and import permits for restricted goods from the Ministry of Trade and Industry and Ministry of Agriculture. The Lesotho Revenue Authority's Customs and Excise Department also requires that importers register with its office and obtain an importer's code. Customs uses a Single Administrative Document (SAD) to facilitate the customs clearance of goods for importers, and cross-border traders. The SAD is a multi-purpose goods declaration form covering imports, cross border and transit movements.

The nature of international sales transactions is that they involve many parties. There is bound to be disputes. The question is what is the most suitable mechanism of resolving such disputes when they do arise? The choice between different methods depends on the advantages and disadvantages of each method, their suitability for the particular business relationship, and the legal, economic and commercial backgrounds of the parties to the dispute. Suffice it to say that parties are always free to include a clause in their agreement stipulating the method that will be used in case of a dispute. Where there is no such clause, a number of avenues are open to the parties, namely litigation, arbitration, mediation/conciliation.

##### ***A. Litigation***

Litigation is the traditional means of dispute settlement in Lesotho. It involves use of the court of law as the referee/judge for settling the dispute. It is characterised by the power of the court to enforce its decisions and the formality of the procedures under which the court conducts its business. The central issues are jurisdiction and the applicable law.

Access to courts is easier through use of attorneys and advocates. Lesotho still operates a dual system where the profession of advocates exists side by side with that of attorneys.

The commercial practice in the High Court commenced in the year 2000 (High Court (Amendment) Rules 2000). This position was followed by further amendments in 2003, 2009 and 2011. The 2009 amendment was a major one as it established the commercial division of the High Court, setting out comprehensively its objectives and the nature of the business of the commercial court. The business of the commercial court is outlined in the Commercial Court Rules of 2011.

The courts of law exist for the resolution of disputes concerning traders and investors. The Commercial division of the High Court was established in 2011 with a view to deal with purely commercial matters. As part of the reform project establishing the commercial court, there is what is called court annexed mediation which is mediation tied to the process of litigation before the High Court. Court annexed mediation is available for all high court matters including commercial disputes.

The general problems associated with litigation are rife in Lesotho. There are delays, costs and divisiveness as a result of the adversarial and antagonistic nature of litigation. There is increasing resort to arbitration and parties are slowly taking into mediation. With mediation, parties do not have much choice because it is court connected.

One of the most pertinent questions that has troubled our courts is in regard to jurisdiction. The jurisdiction of the commercial court over matters where an agreement of sale in relation to land is involved has been considered in a number of cases. The court of appeal seems to incline towards a general view that where the preponderant part of the claim or prayers is commercial or sale related, then the commercial court has jurisdiction (**Mammope Scout v Vittichalil Narayanan Nair & 4 Others** (CCA/102/2020) [2021] LSHC 3 ([www.leslii.org.ls](http://www.leslii.org.ls))). It is clear on these authorities that factors to be considered in determining the jurisdictional issue of the two courts where an agreement of sale has been concluded in relation to land include, inter alia, the nature of the right that a party seeks to enforce, i.e. whether contractual or about title to land and the issues raised by a given dispute.

### ***B. Alternative Dispute Resolution***

The legal system of Lesotho permits exploration and use of Alternative dispute resolution under certain circumstances. On the one hand, the High Court has introduced court annexed mediation to resolve all matters that have been filed before the courts of law. The Magistrate Court has introduced a small claims procedure that combines both mediation and arbitration in the style of the famous Judge Judy show. On the other hand, the law permits private mediation where both parties can appoint a mediator to deal with their dispute. The result of such mediation is the settlement of the dispute. Parties may choose to either take the settlement agreement to court to be made an order of court or to simply just keep it as a covenant to be respected by both of them. Exploration of ADR is based mainly on the known disadvantages of litigation as the main dispute resolution mechanism. The known disadvantages of litigation include delays and high costs; disputes may take years to get to court, some matters can be technical in nature and may result in a miscarriage of justice manifest in poor judgments, and litigation is always in the public domain even where parties would prefer privacy.

Parties may instead choose arbitration. Arbitration is a well-established method of dispute resolution. Arbitration is a means of third-party dispute resolution in which the parties to a dispute have the freedom, subject to the relevant laws, to determine whether, when and where to use this method, to appoint an arbitrator (or arbitrators) and to choose procedural rules (if applicable) for arbitration. Arbitration is the submission of disputes by consensual agreement to a third party known as an arbitrator, for a binding decision, known as an award, and it is binding on the parties because they have so agreed. Its basic features are as follows: it is a means of dispute resolution, by third parties (as against consultation which is between two parties), semi judicial process, semi-autonomous (ie based entirely on the agreement of the parties and the arbitral award is enforceable in law).

The Arbitration Act of Lesotho (No. 12 of 1980), commenced on 1 October 1981 (Legal Notice 57 of 1981). The wording of its provisions is virtually identical to that of the South African Arbitration Act (No.42 of 1965), although the numbering of sections differs (Eugene Cotran and Austin Amissah, 2014:195-196). Because this legislation dates from 40 or 50 years ago, and predates the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration (hereinafter called “Model Law”), the current Lesotho legislation is not in alignment with international developments.

Lesotho became party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States on the 14<sup>th</sup> March 1975. Lesotho has acceded to the New York Convention thus making Lesotho to readily accept and enforce foreign arbitral awards (13 June 1989). Most arbitration proceedings that take part in the Kingdom are limited to labour matters and are governed by the Act (Labour Code Order 1992) and are carried out by the Directorate of Disputes Prevention and Resolution which is governed by the. Attention will now shift to the perusal of the relevant sections of the Act.

These pieces of legislation are generally old. There are moves to amend and/or replace most of them. Even the process of amendment for some of them has taken too long, already warranting some changes.

#### **2.4.6 Execution of court decisions and arbitral awards**

Court decision enjoy the assistance of the police in their execution. The arbitral awards may not enjoy the same support unless they are turned into court orders in terms of the Arbitration Act. Section 32 of the Act provides that parties may submit their award to the Court to be made an order of court. The same applies where an award was given by the arbitrators outside Lesotho but has to be executed in Lesotho. This is made easy by the New York convention on arbitral awards.

The Arbitration (International Investments Disputes) (Act 23 of 1974) provides for an alternative cheaper method of dispute resolution, which may be used in certain situations. The Act sets out the rules for conciliation and arbitration and implements the International Convention on the Settlements of Investments Disputes between States and Nationals of Other States Washington (1965), which is in turn incorporated into the schedule 3 of the International Arbitration Act. The convention created the ICSID (International Centre for Settlement of International Disputes).

## **2.5 Conclusion**

The international regime for international trade has been argued to have been created by a small number of developed countries. Thus, it may not speak to the realities of developing countries, such as Lesotho. Lesotho joined the GATT with no say over the contents of the agreement since the document had been introduced in 1947, when Lesotho was still a colony. Secondly, Lesotho had very little business and trade experience upon becoming a member of the GATT. This was common for developing countries. Thus, there was little that it could understand about the rules. Lastly, there was little capacity to negotiate or to understand the agreement. GATT did not help Lesotho much. A similar trend may be argued with the WTO Agreements. While agreements, such as the Agreement on Textiles and Clothing, influenced investment inflows of investors who wanted to take advantage of quotas, this investment and trade has not been sustainable. The remaining agreements present complex challenges for Lesotho to implement, in light of her limited capacity. Regional agreements offer Lesotho access to neighbouring markets, in the Southern African Development Community, or

in the Southern African Customs Union. However, the extent to which this advantage has been used is questionable. With a dearth of appropriate domestic policies, strategies and laws, Lesotho will not be able to enjoy much benefits.

## References

- ACT NO 9 OF 1993 World Trade Organization, Press Brief, 1998, [https://www.wto.org/english/thewto\\_e/minist\\_e/min96\\_e/chrono.htm](https://www.wto.org/english/thewto_e/minist_e/min96_e/chrono.htm)
- Bagwell K., & Staiger R., W., (2016). (Eds), Handbook of Commercial Policy, Chapter 7 - Special and Differential Treatment for Developing Countries, 1, Part B: 369-432
- Cobbe J. (1983). The Journal of Modern African Studies, 21, (2):. 293-310.
- Companies Act, 2011. His Authority the majesty the King of Lesotho, [https://www.msm.org.ls/media/1003/companies\\_act\\_2011.pdf](https://www.msm.org.ls/media/1003/companies_act_2011.pdf)
- Cooperative Lesotho Limited v Minister of Small businesses, Development, Cooperatives and Marketing and Others (C OF A (CIV) 43/2016
- Cooperative Societies Act No. 6 of 2000. Lesotho. <https://leap.unep.org/en/countries/ls/national-legislation/co-operative-societies-act-no-6-2000>
- Cooperative Societies Regulations No. 107 of 2001. Lesotho. [https://natlex.ilo.org/dyn/natlex2/r/natlex/fe/details?p3\\_isn=65614&cs=1-265BFaSm3KpBpkV0yMzVsj81I4ZFP9U-7lp1LLGjA4bEW-4398R-VRDhcqpJ3xNT4CiVU0M5tSM8ob6\\_pbczw](https://natlex.ilo.org/dyn/natlex2/r/natlex/fe/details?p3_isn=65614&cs=1-265BFaSm3KpBpkV0yMzVsj81I4ZFP9U-7lp1LLGjA4bEW-4398R-VRDhcqpJ3xNT4CiVU0M5tSM8ob6_pbczw)
- Cotran E. and Amisshah A. (2014). *Arbitration in Africa* (Kluwer Law International) (2014) 195-196.
- International Monetary Fund (2022) <https://www.elibrary.imf.org/view/journals/002/2022/162/article-A009-en.xml>
- John Williamson, A Short History of the Washington Consensus, 15 Law & Bus. Rev. Am. 7 (2009).
- Labour Code (Amendment) Act 2000 (Act No. 3 of 2000). Lesotho. [https://natlex.ilo.org/dyn/natlex2/r/natlex/fe/details?p3\\_isn=69831&cs=1hfYqvyXcqG4Qz39-42LCO\\_XI-dcNfOhIZIJDV7ManTPfdkJ5CBaTFY8q6uBO-ZaONbGAmM0eVvj9nP0lnLSJA](https://natlex.ilo.org/dyn/natlex2/r/natlex/fe/details?p3_isn=69831&cs=1hfYqvyXcqG4Qz39-42LCO_XI-dcNfOhIZIJDV7ManTPfdkJ5CBaTFY8q6uBO-ZaONbGAmM0eVvj9nP0lnLSJA)
- Lephema v Total Lesotho & Others C of A (CIV) 36/2014
- Lesotho National Development Corporation Order No. 13 of 1990. <https://www.lndc.org.ls/sites/default/files/docs/legislation/LNDC%20Act%201990.pdf>
- Milton A. (2016). The textile and clothing industry in Lesotho in the wake of the multi-fibre agreement phase-out. Institute of Policy Research and Analysis.
- Protocol on the Provisional Application of the GATT, 1945. [https://www.wto.org/english/res\\_e/booksp\\_e/gatt\\_ai\\_e/prov\\_appl\\_gen\\_agree\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/gatt_ai_e/prov_appl_gen_agree_e.pdf)
- Setai B. (1991), Structural Adjustment Program in Lesotho, Africa Development . Afrique et Développement, 16(1): 5-22
- The Kingdom of Lesotho Income Tax Act 1993. <https://www.rsl.org.ls/sites/default/files/2023-09/Income%20Tax%20Act%201993%20%20Updated%20up%20to%201%20April%202012.pdf>
- Tralac, AfCFTA Ratification Barometer, <https://www.tralac.org/documents/resources/infographics/2605-status-of-afcfta-ratification/file.html>, Septemebr 2023
- Vienna Convention on the Law of Treaties, 1969. [https://legal.un.org/ilc/texts/instruments/english/conventions/1\\_1\\_1969.pdf](https://legal.un.org/ilc/texts/instruments/english/conventions/1_1_1969.pdf)

**CHAPTER THREE**  
**THE POLITICAL DYNAMICS OF INTERNATIONAL TRADE IN LESOTHO**

**Carol Chi Ngang**

Department of Public Law, National University of Lesotho

Email: [ngang.carol@gmail.com](mailto:ngang.carol@gmail.com)



### 3.1 Introduction

In this chapter, I delve into the political dynamics of international trade in Lesotho with the aim to explore in a critical but objective manner, the constraining factors that influence and shape the operationalisation of international trade. This includes in particular, the foundational power asymmetries on which international trade is constructed, how and the terms by which Lesotho engages in trade, and the extent to which trade relations are mutually beneficial or not. I do so, first and foremost, to provide a comprehensible analysis and argumentation to the effect that Lesotho's involvement in international trade is not determined exclusively by the formal standards in terms of how the conduct of international trade ought to be perceived at face value, but that it is determined on the most part, by a combination of indeterminate underlining factors, at the core of which is politics. In relation, I illustrate how the manifestations of politics both at the domestic and international levels influence, and shape the market structure and the intricacies surrounding Lesotho's trade performance therein, which as the findings illustrate, is largely not in Lesotho's favour.

For purposes of clarity and a proper understanding of the subject position in this chapter, it is worth drawing parallels between the concepts of international trade and of politics and most importantly, to show how the latter impacts on the former. International trade is defined in simple terms as the buying and selling or exchange of goods and services across international borders. As Heakal, Catalano and Ecker rightly note, international trade allows and provides countries with the opportunity to expand their markets and be able to access goods and services that otherwise may not be available domestically, which results in competitive pricing and comparable benefits to consumers (Heakal et al., 2023). It is worth noting that a country cannot exercise the unilateral prerogative to ship goods and services into another country on account of international trade. Although international trade is mainly undertaken by private and non-state entities, it is largely subject to bilateral and/or multilateral negotiations, which are on the most part, predominated by politics with the aim of protecting competing national interests. So even as private and/or non-state entities, trade across the border may only be undertaken on the basis of the political considerations that define and enable the trade arrangements.

Politics is a convoluted term, not confined to any unique universally acceptable definition but subject to varied interpretations that may either be conceived from a narrow or broad point of view.<sup>15</sup> For the purpose of the discourse in this chapter, politics should be understood from the viewpoint of Andrew Heywood in its multifaceted dimension as the art of government, including the practice of deception and manipulation; the coordination of public affairs involving the processes and course of action, and the exercise of the power of decision making that encompass the compromises and consensus on matters of interest to a state (Heywood, 2002). Among the matters of interest to every state, Lesotho inclusive is international trade in relation to which, McCarthy (2003) affirms that '[m]ost, if not all, regional integration arrangements [the framework for international trade] have political aims as a primary driving force'. McCarthy additionally notes that '[t]he benefits of regional integration for developing countries are linked to the role that integration can play in fostering economic growth and development'. By inference, the political underpinnings in trade relations are essentially motivated by national interests and the expectation to foster economic growth and to sustain development.

---

<sup>15</sup> See Valeri Modebadze 'The term politics reconsidered in the light of recent theoretical developments' (2010) 4/1 *IBSU Scientific Journal* 39-44.

There is a bulk of empirical evidence in support of the hypothesis that international trade plays a major role in advancing economic growth and development for many countries around the world (Ji et al., 2022; Abiodun 2017; Hag & Luqman, 2014; Krüger 2013; Sun & Heshmati, 2010. Malefane and Odhiambo (2016) articulate a similar argument with regard to the contribution of international trade to socio-economic development in the landlocked, least developed mountain Kingdom of Lesotho, which I differ with on the basis that their perception is aspirational and consoling but in essence, does not reflect or translate into reality. Admitted that international trade is instrumental in advancing socio-economic development as it is the case in most developed countries around the world, it is conceivable to imagine comparable levels of sustainable socio-economic development in Lesotho resulting from the country's involvement in international trade over several decades, which in effect, has not been the case. It begs the question how Lesotho could more strategically approach international trade such that it can contribute to transforming the development landscape in the country.

The enquiry obtains from and is motivated by the fact that while international trade is generally acknowledged to play a determinant role in advancing socio-economic development, the same does not seem to be true for Lesotho, which gauged against major development indicators, has consistently been profiled as a least developed country. Through a balanced critique of the trade sector in juxtaposition with Lesotho's low profiling as a least developed country, I argue that although international trade falls within the domain of the private sector and is driven by neoliberal considerations, which basically imply inclination and openness of the domestic market to global competition, the mechanics of international trade are essentially leveraged by politics. Sean Maliehe affirms that '[i]n Lesotho, commerce [trade] has a strong political dimension' sustained by 'a two-century-long Basotho struggle for economic independence [...]' (Maliehe, 2021). It means that although Lesotho exhibits visible features of a predominantly neoliberal economy marked by free enterprise and a greater degree of market autonomy, law making and policy certainty in regulating trade is the prerogative and can only be ascertained by the state.

In substantiation of the argument, I employ a socio-legal doctrinal approach <sup>16</sup> in analysing the obligations that flow from Lesotho's engagement in international trade and the implications of that to the country. The discussion is fleshed out as follows: in the section that follows, I explored the complexities in the politics of international trade, which encompass Lesotho's involvement in international trade and some of the major trade agreements that the country is party to. I proceed to look at the perceived benefits from international trade. In doing so, I critically examine Lesotho's trade performance and its export trade strategy and the constraints to its realisation. I then conclude in the last part where I proffer some policy recommendations.

### **3.2 Complexities in the Politics of International Trade**

In a profiling of the Kingdom of Lesotho, the World Trade Organisation ([WTO], 2010) notes that the Lesotho economy is heavily dependent on international trade representing 132% of the country's GDP in 2021 (McConville & Chui 2007). This may be attributed to several complex factors. Mary-Anne Madeira notes for example that a combination of aspects, including societal preferences, collective action, domestic institutions, and international factors affect trade politics and policy

---

<sup>16</sup> Mike McConville & Wing Hong Chui, *Research Methods for Law* (Edinburgh University Press, 2007) pg 5.

outcomes, which in combination form the key levers on trade policy preferences in favour of either protectionism or liberalisation 2021 (McConville & Chui 2007).

Since the advent of globalisation, the last couple of decades have witnessed an increasing leaning by many countries around the world towards trade liberalisation, subscription to free trade policies and membership into single market systems. Like many other African countries, Lesotho's penchant for trade liberalisation is not only unsurprising<sup>17</sup> but dates several decades back marked by its early membership in international trade organisations and also involvement in a broad range of trade agreements/arrangements that have solidly integrated the country into regional, continental and global trade systems, which as it must be noted, are characterised by complexities that need flagging. In doing so, I shall proceed to look at the types and nature of trade engagements that Lesotho is engaged.

### **3.2.1 Lesotho's International Trade Engagements**

The UN Secretary General, Anthonio Guterres is apt in highlighting that '[t]rade is at the centre of international relations, and the WTO is at the heart of trade (United Nations, 2019) which among other things revolves around the 'nature and exercise of power within the global system', including with respect to promoting trade policies between nations. Lesotho's engagement in international trade is assessed in the backdrop of this understanding and the crucial role that the WTO is required to play not just in accommodating countries on the roundtable of international trade but importantly in being able to ensure that small countries like Lesotho are not just absolved into the global system of noticeable and increasingly competing power asymmetries. Lesotho has been a member state of the defunct GATT since 1988 and is currently a member state of the WTO since 1995. The WTO has evolved as the regulatory institutional framework for cross border trade among member states and hence, provides the forum for negotiating trade agreements and for settling international trade disputes plays the central role as the exclusive operator of the global system of trade rules and equally assists developing countries in building their trade capacity (WTO, 2023).

Crucial question is whether, how and to what extent as a least developed country, Lesotho's trade capacity has improved as a result of membership in the WTO. It is reported that 'Lesotho's development strategy has resulted in a positive economic performance in the past few years, with recent high GDP growth, relatively low inflation, and surpluses in both its overall fiscal position and external current account'.<sup>18</sup> Besides all formal considerations of membership, it does not seem that the WTO is of much help to developing countries as stated, in the sense that its rules and practices in the conduct of international trade, allows or turns a blind eye to 'cartel agreements, price fixing and the abuse of a dominant position on the market', which are disproportionately unfair to developing countries (Bossche 2012; Bossche & Prévost 2016; Prusa 2020; Serences & Kozelova 2020). The WTO has often been accused of crafting unfair agricultural policies and free trade rules that allows developed countries institutionalised patronage and perpetuation of their economic dominance, which systematically disadvantage developing countries (Jelena & Biljana 2013; Oxfam International, 2002).

Even as the WTO purports to assist developing countries in building their capacity for international trade, the fact cannot be ignored that like all post-World War II international organisations established

---

<sup>17</sup> See for example, Malefane & Odhiambo (n 2) p. 2

<sup>18</sup> World Trade Organisation (n 9) pg 8.

by western economic hegemons, the operationalisation of the WTO is underpinned by the politics of dominance and patronage over less powerful countries around the world. While the WTO may provide the forum and probably facilitate the processes, I contend that trade agreements are essentially the product of tough negotiations. These negotiations that are generally foregrounded by the negotiating parties' economic interests, which are always prioritised over other considerations. The potential to negotiate trade arrangements are also principally determined by the economic and political clout that the negotiating parties exert. Without the power comparable to that wielded by economically advanced countries, terms of trade are often just imposed on developing countries like Lesotho on account of their inadequate leverage in negotiating better trade agreements in their favour. This is evident in most of the major trade agreements that Lesotho is a party to.

### **3.2.2 Some Major Trade Agreements**

In this section, I examine some of the bilateral and multilateral trade agreements that Lesotho is a party to, including at the regional, continental and global levels. At the regional level, Lesotho has since 1910 (a period of 113 years), been engaged in multilateral trade within SACU (the oldest existing customs union in the world) comprising of five member states; Botswana, Lesotho, Namibia, South Africa, and Swaziland (International Trade Administration US Department of Commerce, 2021). The SACU trade agreement guarantees duty-free trade among its member states while extending a common external tariff against imports from the rest of the world. As a member state, Lesotho is entitled to trade duty-free with the other SACU member states in addition to benefiting from any free trade agreements that the union may enter into with other countries or trading blocs (International Trade Administration US Department of Commerce, 2021). For instance, the Southern African Customs Union's Member States and Mozambique and the United Kingdom of Great Britain and Northern Ireland Economic Partnership Agreement (SACUM-UK EPA) established in in 2019 aims at facilitating free trade between the partners (Gov.Uk, 2019). The SACUM-UK EPA agreement accordingly, expands Lesotho's trading opportunities and market access to Mozambique and the UK.

The SACU trading bloc has a long and checkered history that goes as far back as 1889 with the establishment of the Customs Union Convention between the British Colony of Cape of Good Hope and the Orange Free State Boer Republic. Established during the colonial period and thus, heavily informed by colonial and subsequently, apartheid politics, which principally aimed at dispossessing local and indigenous communities through the extraction of their natural resources to the benefit of both the settler and non-settler colonists. Although the local communities supplied the (cheap) labour force and the primary products (natural resources) that boosted international trade within the SACU framework, the gains accruing from such trade were systematically angled to benefit the European colonialists while the locals reaped less or nothing at all and thus, disproportionately disadvantaged and deprived of the opportunities for development. This colonial extractivist pattern prevails and has since inception, shape SACU's operationalisation. This is evident in the fact that although SACU member countries have been engaged in international trade for the longest time, they remain relatively underdeveloped, and as reported by the World Bank (2022), represent the most unequal countries in the world in terms of income and wealth distribution.

In terms of human development, SACU member countries are not in any better territory. Gauged against 191 countries and territories on the Human Development Index, South Africa only ranks at 109th position, Botswana at 117th position, Namibia at 139th position, Eswatini at 144th position and Lesotho at 168<sup>th</sup> (UNDP Human Development Reports, 2023). For the SACU bloc, GDP was

estimated at ZAR6.8 trillion as of 2021 and among member states, Lesotho ranked last with a GDP of R35 076, representing a negligible 1.6% (SACU, 2022). Revenue from SACU accounted for just slightly over 20% of Lesotho's total GDP in 2022/2023 (Fraser & Hadley, 2023). Until 2002 when a new and more equalising agreement was renegotiated, SACU has been dominated by South Africa, which basically exerted its political influence on the other SACU member countries. The United State Trade Representative affirms that the 'South African economy dominates SACU, representing approximately 91 percent of SACU's 2003 GDP of \$175 billion' (United State Trade Representative, 2006). Lesotho appears to suffer the domination more on account of being completely encircled geographically and overshadowed economically by the neighbouring South Africa on which it depends for much of its economic activities and over 85% of its consumer goods imports (AGOA.Info, 2021).

At the African continental level, Lesotho is one of the 47 out of 55 AU member states that have, as of October 2023, formalised by way of ratification and thus, legally committed to the agreement establishing the African Continental Free Trade Area (AfCFTA) that went operational on 1 January 2021 as the world's largest free trade area with a market size of over 1.2 billion people and a gross domestic product (GDP) of an estimated USD2.5 trillion. The AfCFTA agreement has as its principal objectives, to create a single continental market for tariff-free exchange of goods and services, enable the free movement of capital and persons, facilitate investments, establish a liberalised market systems through multiple rounds of negotiations, and progressively establish a continental customs union; enhance competitiveness among member states within Africa and in the global market; encourage industrial development through diversification and creation of regional value chain, agricultural development and food security and achieve sustainable and inclusive socio-economic development, enhanced gender equality and structural transformations within member states.

Lesotho ratified the AfCFTA agreement in November 2020 and therefore, enjoys guaranteed access to trade freely with other member countries and thus, also entitled to explore the enormous benefits that the continental market offers, which is envisaged to usher in a new era of socio-economic development across the continent. To put the AfCFTA into appropriate perspective, Bruce Takefman notes that it has the potential to transform and expand Africa's economy to USD29 trillion by 2050 and accordingly, broaden and deepen economic integration across the continent, attract investment, enhance and revitalise trade, enable job creation, reduce poverty and increase shared prosperity in Africa (Takefman, 2023). It is obviously premature to assess how and to what extent the anticipated massive expansion and transformation of the African economy would eventually accrue to Lesotho and possibly change the country's development landscape.

However, there is reason to be optimistic about the AfCFTA unlike the several other trade agreements that Lesotho is party to in the sense that as a homegrown flagship project of Agenda 2063, which lays down a 50-years plan and trajectory for development across the continent, the initiative was conceived, established and is being pursued without much foreign interference. Operationalisation of the AfCFTA is thus, to a very large extent, envisaged to guarantee equitable leverage to all of its member countries, including in particular, small countries like Lesotho, which must all take calculated advantage thereof. It entails for the government of Lesotho at the very minimum, to engage in strategic political decision making in reformulating its international trade strategy particularly in the area of export trade, which must emphasise investments in other parts of the Africa continent.

At the global level, Lesotho became a state party to the global multilateral Partnership Agreement entered into in June 2000 in Cotonou, Benin between African, Caribbean and Pacific group of

countries (ACP) on the one part and the European Union (EU) on the other part, commonly referred to as the Cotonou Agreement established for the purpose of non-reciprocal preferential access to the EU market for products from the ACP member countries. Lesotho is accorded preferential treatment as a least developed country under the Cotonou Agreement – a status that entitles Lesotho and grants it quota- and duty-free access in terms of the EU's policy initiative on Everything but Arms (EBA), to export all conceivable goods and services with the exception of arms to the EU market. Retaining the objective of non-reciprocal preferential access to the EU market, a post-Cotonou agreement between the EU and 79 member countries of the Organisation of African, Caribbean and Pacific States (OACPS) currently known as the EU-OACPS Partnership Agreement were concluded in April 2021 and endorsed by the EU Foreign Affairs Council in July 2023, which then sets the political, economic and sectoral cooperation framework between the parties for the next twenty years (European Commission, 2023).

The Delegation of the EU to the Kingdom of Lesotho affirms that the EU and Lesotho have had a 'fruitful bilateral relationship for several decades, which has gradually expanded from development cooperation to a multi-faceted partnership encompassing political dialogue, trade and investment, socio-economic cooperation, support to national reforms and governance, and academic and cultural exchanges' (European Union, 2021). In accordance with article 36(1) of the Cotonou Agreement with a view to designing trading arrangements that are compatible with WTO rules by progressively removing barriers to trade between state parties and enhancing cooperation in all areas relevant to trade (Gathii 2013), Lesotho entered into a bilateral Economic Partnership Agreement with the EU in 2016, which gives the country significant improved access to the EU market.<sup>19</sup>

Lesotho also enjoys preferential non-reciprocal duty-free access to the United States (US) market under the African Growth and Opportunity Act (AGOA) pact signed in 2000, which unlike the multilateral and bilateral agreements discussed above, does not provide the opportunity for any trade negotiations but allows the US, in terms of the legislation to unilaterally decide (mostly on political grounds) which African countries are entitled to benefit and which countries are excluded (AGOA.Info, 2021). The risk with AGOA is that the US often uses it as a weapon for sanctions against beneficiary countries that go against US policies. Nonetheless, the AGOA trade pact offers to Lesotho enormous benefits in export trade of textile and garments, diamonds, agricultural and electronic products worth USD372 million in 2022 alone to the US market against USD8 million worth of US exports to Lesotho in the same year, leaving a balance of trade surplus of USD264 million in Lesotho's favour (AGOA.Info, 2023).

These are just some of the trade agreements/arrangements that Lesotho is a party to. There exists a lot more, including a bilateral preferential treatment on trade with China entered into in 2022 (Senoko, 2022; Mahao & Yang 2019), a Bilateral Investment Treaty (BIT) with the United Kingdom entered into in 1981,<sup>20</sup> bilateral trade with France<sup>21</sup> a Duty-Free Tariff Preference (DFTP) Scheme between

---

<sup>19</sup> Privacy Shield Framework 'Lesotho - Bilateral Investment Agreements' *Lesotho Country Commercial Guide*, available at: <https://www.privacyshield.gov/ps/article?id=Lesotho-Bilateral-Investment-Agreements> (accessed 14 October 2023).

<sup>20</sup> UNCTAD Investment Policy Hub 'Lesotho - United Kingdom BIT (1981)' available at: <https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bit/2396/lesotho---united-kingdom-bit-1981-> (accessed on 14 October 2023).

<sup>21</sup> Observatory of Economic Complexity (OEC) 'France/Lesotho' available at: <https://oec.world/en/profile/bilateral-country/fra/partner/lso>

India and Lesotho, entered into in 2008<sup>22</sup> among several others. It is inexplicable and hard to comprehend why Lesotho, despite being severely handicapped in industrialisation and production, should stretch itself beyond economic elasticity by engaging in so many trade arrangements without adequate export trade capacity to respond to the preferential treatments and duty-free access to the foreign markets offered by the trading partners. The reality suggests that Lesotho only gets into the several trade arrangements on the basis of political expedience rather than on the principled objectives to among other considerations, achieve economic advantage and productive capacity, increase the country's growth potential and protect the national interest.

### **3.3 Perceived Benefits from International Trade**

For many countries especially, those that are generally categorised as developed and industrialised, there is solid visible evidence attesting to the contribution of international trade to their advanced levels of development and industrialisation. If the theory holds true that international trade has the potential to contribute to economic growth and sustainable socio-economic development as noted earlier, it is plausible to imagine a comparable level of economic growth and development proportionate to the value of trade that should have accrued to Lesotho over the decades following the countries involvement in international trade as illustrated in the previous sections.

Against the view shared by Malefane and Odhiambo regarding the role of international trade to economic growth in Lesotho (highlighted earlier), which is explained by a steady increase in export trade contribution to GDP,<sup>23</sup> I contend that the increase in export trade does not necessarily translate into socio-economic development at the domestic level. The steady increase in Lesotho's export trade is indeed, impressive and worth applauding but unfortunately does not translated into domestic economic growth and socio-economic development for the country, which remains exceptionally marginal. The Heritage Foundation observes that 'Lesotho lags far behind many other developing countries in terms of economic development', and more so, that the 'economy performs poorly in many of the pillars of economic freedom, which are not strong enough to sustain meaningful economic progress (The Heritage Foundation, 2023).

#### **3.3.1 Trade Performance**

An examination of Lesotho's international trade performance illustrates that the country has consistently maintained a balance of trade deficit over the years without any indication of any foreseeable reversal of the trend (Southern African Customs Union, 2023). According to WTO data, in 2021 Lesotho received a cumulative total of USD1.471 billion as revenue from exports of goods and services but in turn, spent USD2.070 billion in payment for imported goods and services, resulting in a negative balance of trade. The market structure may provide a bit more clarity to this phenomena. It is reported in this regard that:

1.13. Lesotho's participation in world trade differs significantly from that of the other SACU members. In 2013, Lesotho ranked 130th among world merchandise exporters (excluding intra-EU trade) and 126th among importers. Only Swaziland performed worse than Lesotho for goods imports. In services trade, Lesotho ranked 186th among exporters and 166th among

---

<sup>22</sup> High Commission of India, Pretoria [Concurrently accredited to the Kingdom of Lesotho] 'India - Lesotho relations. <https://www.hcipretoria.gov.in/docs/1676525887Bilateral%20Brief%20Lesotho%20for%20XPD-15%20Feb%202023.pdf> (accessed on 14 October 2023).

<sup>23</sup> Malefane & Odhiambo (n 2) p. 2.

importers, in both cases placing last among the SACU countries. During the period under review, Lesotho exhibited a trade deficit for goods and services and despite some progress in diversification, its trade structure remains concentrated in very few markets and products.

1.14. During the period under review, Lesotho's trade deficit for goods widened. Its exports fluctuated, while its imports grew steadily to about US\$1.6 billion in 2012. In the same year, its exports amounted to US\$678 million [...]. Compared to 2008, Lesotho's export basket did not change much. During the period reviewed, apparel exports remained Lesotho's leading sector, accounting for 55.6% of the total in 2012, compared to 60.1% in 2008. It was followed by food (14.3%) and machinery and transport equipment (11.4%). Its import basket also remained almost unchanged during the same period. Lesotho's main imports continue to be food products, machinery and transport equipment, and fuels. Together, they accounted for about half of total imports in 2012 [...].

1.15. In terms of market structure, Lesotho's trade remains heavily concentrated in South Africa especially for its imports [...]. In 2012, imports from South Africa accounted for 89% of the total, compared to 95% in 2008. Imports are also sourced from Chinese Taipei (4.7% of total imports in 2012) and China (2.8%) (World Trade Organisation, 2023).

This outlook presents a vivid picture of the skewed and lopsided market structure wherein Lesotho operates with the expectation to thrive, which as it is obvious, places the country in the dire situation where it is overshadowed by economic giants. The structural market imbalance can rightly be attributed to the glaring power asymmetry between Lesotho with its obvious economic fragility and its dominant trading partners like South Africa and China among many others. The power asymmetry implies unlikelihood that Lesotho can be able to achieve a fair bargain in the trade negotiations except for example, in the instance were it is offered a non-reciprocal deal such as under the AGOA pact.

For instance, in terms of the BIT between Lesotho and the UK, the latter was able to in 2021, effect exports worth USD2.99 million to Lesotho while Lesotho in turn was only able to export products to the tune of USD643 000 to the UK (Observatory of Economic Complexity, 2023). Furthermore, trade relations between Lesotho and India have also not been in Lesotho's favour in the sense that while India's exports to Lesotho amounted to USD16 million in 2021, Lesotho was only able to export products worth USD90 000 in the same year. And the French exports to Lesotho is reported to have been on the rise at an annual rate of 17.4%, from USD133 000 in 2000 to USD388 000 in 2021 whereas, Lesotho's to France have progressively decreased at an annual rate of 19.5%, from USD961 000 in 2000 to USD10 000 in 2021. Lesotho's trade relations with Canada is like with the US under the AGOA pact, much better. In the last 21 years Canadian exports to Lesotho have decreased at an annual rate of 5.44%, from USD1.51 million in 2000 to USD466 000 in 2021 while during the same period, during the same period, Lesotho's exports to Canada have increased at an annual rate of 2.81%, from USD4.61 million in 2000 to USD8.25 million in 2021.<sup>24</sup>

As pointed out earlier, these are just a few examples out of many. Overall, the fiscal outlook is grossly unhealthy for the Lesotho economy. If the trend is to be reversed, strategic economic reasoning would suggest a quick shift in policy preferences, necessitating terminating unproductive trade relations that

---

<sup>24</sup> Observatory of Economic Complexity 'Canada/Lesotho' available at: <https://oec.world/en/profile/bilateral-country/can/partner/lso> (accessed on 15 October 2023).



are not in Lesotho's favour and prioritising those in which the country excels in export trade, which remains severely constrained.

### **3.3.2 Export Trade Strategy and the Constraints to its Realisation**

The balance of trade deficit is explainable in simple economic terms by the fact that the Lesotho imports far more than it exports. By implication, the country might hardly get to achieve significant economic growth and sustainable development for the obvious reason that the country gives out more money in payment for imported goods and services than it receives as payment for goods and services sold to its trading partners. Hence, the extent to which international trade may contribute to economic growth and sustained socio-economic development in Lesotho depends on the policies that regulate trade, which unfortunately have been more inclined to trade liberalisation in spite of its adverse effects on the domestic economy and a confused involvement in many, and apparently opposing trade arrangements. The Organisation for Economic Cooperation and Development (OECD) rightly notes that;

Lesotho has little to gain in terms of market access from bilateral FTAs [free trade agreements] with highly developed countries as long as it has LDC status. As the AGOA experience illustrates, preferential access to large, rich country markets can yield significant benefits to Lesotho's economy, in terms of export revenue, employment, and links to foreign investors. Moreover, membership in SACU further limits the use of bilateral FTAs signed outside the SACU framework (OECD, 2003).

By referencing the AGOA experience and observing that, Lesotho's membership in SACU limits the use of bilateral free trade agreements signed outside the SACU framework, the OECD seems to suggest that Lesotho should rather prioritise direct bilateral free trade agreements, which indeed, makes good economic sense. Having to do so is however, problematic and not really worth promoting considering that most of the existing bilateral trading partner countries like South Africa, China, the UK, India and France among others, mostly only see Lesotho as a market for their products. Lesotho is indeed, cognisant of this shortcomings and has, as a remedy measure, developed a comprehensive export trade strategy for the period 2020 to 2024, with focus on horticulture, textiles and apparel, and the light manufacturing industry as priority sectors and in enabling micro, small and medium-size enterprises diversify their production base and equally explore new markets (International Trade Centre, 2020).

According to Gillson and Strychacz (2010), Lesotho's relatively small and overshadowed economy makes it difficult to attract inflows of foreign direct investment to be able to adequately activate diversify of the domestic industrial and service sectors and more so, with the exception of diamonds, the country does not possess a diverse range of other natural resources to fall back onto in developing a lucrative export industry. Despite doing exceptionally well in its export-led growth strategy, I contend that reliance on the horticulture, textiles and apparel, and the relatively small light manufacturing industry may supply the foreign markets to which Lesotho enjoys preferential treatment and has free access to, but are short of the export potential to off-set the countries balance of trade deficit that has persisted over the years. To achieve this arduous task requires more than just an export trade strategy but most essentially a robust national development policy framework that not only looks at export trade but strategically also focus on advancing the domestic economy by massively investing in the country's incredible untapped economic potentials.

The intriguing concern is whether the current political dispensation in Lesotho has the vision for transformation and the potential to look beyond prevailing odds and asked the tough questions about how to first, build and consolidate domestic economic resilience before looking to international trade. Domestic economic growth entails sturdy political stability and a governance environment that features the rule of law and policy certainty, which unfortunately Lesotho has been deprived of in the past couple of years. The political climate in Lesotho has been disruptive and unstable; characterised by explosive incidents of unconstitutional regime changes, protracted periods of totalitarian military rule and unstable coalition governments, which have tremendously affected the country's economic performance and hence also, compromised the scenario for stable economic growth to take place (Ngang et al., 2023).

To remedy the domestic situation and steady the country for eventual sustained economic growth requires not only national commitment but essentially also, political consensus among competing stakeholders, for which national consultations have been undertaken and a broad-based national reforms process initiated in but unfortunately have stalled for no convincing reason (Ngang et al., 2023). It cannot be denied that a fragile and unstable political atmosphere such as this, has adverse impact on international trade and has contributed to keeping the balance of trade consistently in negative territory.

### **3.4 Conclusion and Policy Recommendations**

The government of Lesotho ought to take cognisance of the fact that excessive reliance on international trade may not necessarily be ideal for the domestic economic, which is relatively fragile and does not have the capacity to compete gainfully with robust foreign markets that it trades with. While it is essential to open up the domestic market to foreign competition, protectionism is absolutely necessary to a very large extent in order to boost productivity by home industries and resilience of the domestic economy. It requires as indicated above, a robust policy framework that considerably restricts international trade so as to protect and create the opportunity for home industries and domestic production to thrive before exploring foreign markets. The government needs to decisively embark on adopting policies that prohibit the export of raw materials and primary products. The policies should oblige and incentivise domestic production and conversion of the raw materials and primary products into finished consumable products before they can be certified for export.

It is only by becoming a net exporter of a broad range of finished products that Lesotho can be able to offset its balance of trade deficits and only then, can international trade practically contribute to economic growth and sustained socio-economic development in the country. To achieve these outcomes necessitates strategic choices and a radical shift in policy preferences in favour of rapid industrialisation against the excessive reliance on the importation of finished products, food and other consumer goods from other countries, which could otherwise, be produced locally. For instance, it is inexplicable that about 22% of the Lesotho population is reported to be acutely food-insecure and that an estimated 80% of the food consumed in Lesotho is imported, mainly from South Africa (African Union, 2023:2). Noting that the agricultural sector in Lesotho is mainly based on subsistent farming, if it could be restructured to ensure the production of staple foods on a commercial scale to meet domestic demand and the subsistence needs of the relatively small population, it will significantly boost job creation within the agricultural value chain and the surplus produced can then be exported.

Besides industrialisation and production for the conversion of agricultural and mineral resources into exportable finished products, Lesotho has enormous untapped tourism as well as water and hydroelectricity potentials that are yet to be fully explored to serve as critical levers for the domestic economy. In addition to diamonds, water is one of Lesotho's most valuable natural resources, and as reported by the World Bank (2016), it contributes 10% to the country's GDP. Currently, Lesotho supplies water mainly to South Africa. With greater commitment, including investing heavily in developing additional water infrastructure, Lesotho can become a major exporter of portable water to many more countries within the SADC region and probably also across Africa under the AfCFTA arrangement. The water infrastructure (dams) also has the added capacity to generate hydroelectricity that can be exported to neighbouring countries. In this way, Lesotho's water and hydroelectricity potential can significantly multiply contribution to the GDP far beyond just 10%. The range of pristine mountains across Lesotho also offer huge tourism potential, which if developed, would attract large numbers of tourists from around the world and hence, also boost the domestic economy.

The Lesotho government, accordingly, needs to be extremely selective in the type and nature of trade agreements it engages in and as a matter of necessity, needs to decouple from and sever many of the unproductive trade relations and only retain those that contribute gainfully to the country's balance of payment imperatives. The opportunities offer by the AfCFTA and the benefits that are envisaged to accrue from intra-African free trade in goods and services to member countries, oblige the government of Lesotho to strategically reformulate its international trade strategy to focus more on the African market. The AfCFTA is estimated to 'improve the competitiveness of African industry and enterprises through increased market access, the exploitation of economies of scale, and more effective resource allocation' (Signé, 2022). Compared to other market structures in which Lesotho is involved, the AfCFTA is more structurally balanced with a market size of an estimated 1.2 billion people, which is anticipated to grow to 2.5 billion by 2025 (African Union, 2023) and expand the size of the African economy to USD29 trillion by 2050 (Takefman, 2023). The Lesotho government needs to seriously consider exploring the African market, including investing in other parts of the continent, which entails building unique brands that can be exported.

## References

- Abiodun K. (2017). Contribution of International Trade to Economic Growth in Nigeria. 2017 Awards for Excellence in Student Research and Creative Activity – Documents 1 5-8;
- African Union (2023). Lesotho: Country food and agricultural delivery compact. [https://www.afdb.org/sites/default/files/documents/publications/lesotho\\_country\\_food\\_and\\_agriculture\\_delivery\\_compact.pdf](https://www.afdb.org/sites/default/files/documents/publications/lesotho_country_food_and_agriculture_delivery_compact.pdf) African Development Bank.
- AGOA.Info (2021). 'Country Info: Lesotho. <https://agoa.info/profiles/lesotho.html>.
- AGOA.Info (2023). AGOA Lesotho country brochure. Trade Law Centre (TRALAC). <https://agoa.info/images/documents/15552/lesotho-agoa-guide-and-trade-overview-.pdf>.
- Bossche P.V. (2012). *The Law and Policy of the World Trade Organisation*. Cambridge University Press.
- Bossche P. V. & Prévost D. (2016). *Essentials of WTO Law*. Cambridge University Press.

- European Commission (2023). Post-Cotonou: Statement by Commissioner Urpilainen welcoming the Council's agreement on the signature of new EU - OACPS Partnership Agreement. [https://ec.europa.eu/commission/presscorner/detail/en/statement\\_23\\_2502](https://ec.europa.eu/commission/presscorner/detail/en/statement_23_2502).
- European Union (2021). The European Union and Lesotho: An overview of relations between the European Union and the Kingdom of Lesotho. Relations with the EU, 23 July 2021 available at: [https://www.eeas.europa.eu/lesotho/european-union-and-lesotho\\_en?s=103](https://www.eeas.europa.eu/lesotho/european-union-and-lesotho_en?s=103).
- Fraser A. & Hadley S., (2023). National budget trends in the Southern African Customs Union: struggling for control? ODI. <https://odi.org/en/insights/national-budget-trends-in-the-southern-african-customs-union-struggling-for-control/>.
- Gathii J. T., (2013). The Cotonou Agreement and economic partnership agreements' in UN Office of the High Commissioner for Human Rights Realizing the Right to Development: Essays in Commemoration of 25 Years of the United Nations Declaration on the Right to Development. UN Publication, 259.
- Gillson I. & Strychacz N., (2010). Addressing the Trade Challenges Facing Landlocked LDCs: The Experience of Lesotho. Africa Trade Policy Notes – Note #8 pg 2.
- Gov.Uk (2019). UK/SACU and Mozambique: Economic Partnership Agreement [MS No.34/2019]. <https://www.gov.uk/government/publications/uksacu-and-mozambique-economic-partnership-agreement-ms-no342019>.
- Hag M. & Luqman M., (2014). The contribution of international trade to economic growth through human capital accumulation: Evidence from nine Asian countries. *Cogent Economics and Finance* 2(1): 1;
- Heakal R., Catalano T. J. & Ecker J., (2023, March 20). International (global) trade: Definition, benefits and criticism. *Investopedia*, <https://www.investopedia.com/insights/what-is-international-trade/>.
- Heywood A. (2002). *Politics*. Palgrave Macmillan, New York, 2nd Edn 2002, 4-11. Isbn: 9780333971314, lccn: 00105832, url: <https://books.google.co.ls/books?id=zjORQgAACAAJ>.
- International Trade Administration US Department of Commerce (2021). 'Trade agreements' Lesotho – Country commercial guide. <https://www.trade.gov/country-commercial-guides/lesotho-trade-agreements>.
- International Trade Centre (2020). Diversifying for new markets: Lesotho's new trade strategy. 11 December 2020. <https://intracen.org/news-and-events/news/diversifying-for-new-markets-lesothos-new-trade-strategy>
- Jelena B., & Biljana Č. (2013). *The impact of the WTO Agreement on Agriculture on food security in developing countries*. 135 EAAE Seminar – Challenges for the Global Agricultural Trade Regime after Doha 57;
- Ji X., Dong F., Zheng C. & Bu N. (2022). The Influences of International Trade on Sustainable Economic Growth: An Economic Policy Perspective. *Sustainability* 14(5) 2781: 1-2;

- Krüger J. (2013). The Role of International Trade in Employment Growth in Micro- and Small Enterprises: Evidence from Developing Asia. *Asian Development Bank Working Paper Series on Regional Economic Integration* No 115 2-3;
- Mahao M. & Yang N. (2019). Review on China-Lesotho international cooperation platforms in the background of Belt and Road Initiative. *Advances in Economics, Business and Management Research*, 171-172.
- Malefane M., & Odhiambo N., (2016). The Role of International Trade in Lesotho's Economic Growth: A Review *Acta Universitatis Danubius. Œconomica* 12(5).
- Maliehe, S. M. (2021). *Commerce as Politics: The Two Centuries of Struggle for Basotho Economic Independence*. Berghahn Books.
- McCarthy C. (2003). The Southern African customs union in transition. *African Affairs* 608.
- McConville M. & Chui W. H. (2007). *Research Methods for Law* (Edinburgh University Press, 2007) pg 5.
- Ngang C. C., Shale I., Yuni D. N., & Tsoeu-Ntokoane S. (2023). Right to development governance: A policy proposition for Lesotho. *African Journal of Legal Studies*, 15(3), 393-421. <https://doi.org/10.1163/17087384-bja10083>
- Observatory of Economic Complexity (2023). United Kingdom/Lesotho. <https://oec.world/en/profile/bilateral-country/gbr/partner/lso>
- OECD (2003). Integration into the World Trading Environment Lesotho. Integrated Framework Diagnostic Trade Integration Study Vol 1, 20 November 2003 pg xi-xii.
- Oxfam International, (2002). Rigged rules and double standards: Trade, globalisation and the fight against poverty. <https://oxfamilibrary.openrepository.com/bitstream/handle/10546/112391/cr-rigged-rules-double-standards-010502-summ-en.pdf;sequence=19>.
- Prusa t. (2020). 'Anti-dumping and countervailing duties' in Mattoo A., Rocha N., & Ruta M., *Handbook of Deep Trade Agreement* (The World Bank, 2020) 321-342;
- SACU (2022). 'SACU in Figures – 2022' Revenue Management Sub-Directorate. [https://www.sacu.int/docs/publications/2023/Publication\\_SACU-in-Figures\\_2022.pdf](https://www.sacu.int/docs/publications/2023/Publication_SACU-in-Figures_2022.pdf).
- Senoko N. (2022). Free trade between Lesotho, China set to start. Maseru Metro, 28 November 2022. <https://www.maserumetro.com/news/business/free-trade-between-lesotho-china-set-to-start/>
- Serences R. & Kozelova D., (2020). 'Dumping – Unfair Trade Practice'. *Globalization and its Socio-Economic Consequences* 1-10.
- Southern African Customs Union (2023). 2021 Annual Report' Southern African Customs Union, 2021 pg 49; Aaron O'Neill 'Lesotho: Trade balance of goods from 2012 to 2022. Statista, 16 June 2023. <https://www.statista.com/statistics/448339/trade-balance-of-lesotho/>.
- Sun P., & Heshmati A., (2010). International trade and its effects on economic growth in China. Institute for the Study of Labor (IZA) – *Discussion Paper* No 5151 1-2; Neil Foster 'International Trade and Economic Growth in Developing Countries. The University of Nottingham 1-5.

- Takefman B. (2023). Breaking down the AfCFTA: What you need to know about Africa's latest trade initiative' *ResearchFDI – FDI Insights*, 7 March 2023. <https://researchfdi.com/resources/articles/breaking-down-the-afcfta-what-you-need-to-know-about-africas-latest-trade-initiative/>.
- The Heritage Foundation (2023). 'Lesotho' 2023 Index of Economic Freedom. <https://www.heritage.org/index/>
- UNCTAD Investment Policy Hub 'Lesotho - United Kingdom BIT (1981)' available at: <https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bit/2396/lesotho---united-kingdom-bit-1981>
- UNDP Human Development Reports (2023). Human development insights. Country Insights, 2023 <https://hdr.undp.org/data-center/country-insights#/ranks>.
- United Nations. Poor Countries Biggest Losers When Trade Tensions Escalate, Secretary-General Tells World Body's Special General Council, Warning 'There Are No Winners'. Press Release SG/SM/19575-ECO/304 of 10 May 2019.
- United State Trade Representative (2006). SACU (Southern African Customs Union). [https://ustr.gov/archive/assets/Document\\_Library/Reports\\_Publications/2006/2006\\_NTE\\_Report/asset\\_upload\\_file358\\_9206.pdf](https://ustr.gov/archive/assets/Document_Library/Reports_Publications/2006/2006_NTE_Report/asset_upload_file358_9206.pdf)
- World Bank (2022). New World Bank Report Assesses Sources of Inequality in Five Countries in Southern Africa. Press Release No 2022/055/AFE,
- World Trade Organisation (2010). *Kingdom of Lesotho*. SACU-Kingdom of Lesotho WT/TPR/S/222/LSO 168.
- World Trade Organisation (2023). 'Annex 2: Lesotho: WT/TPR/S/324'. [https://www.wto.org/english/tratop\\_e/tpr\\_e/s324-01\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s324-01_e.pdf)
- World Trade Organisation (2023). 'Who we are' [https://www.wto.org/english/thewto\\_e/whatis\\_e/who\\_we\\_are\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/who_we_are_e.htm)

## **CHAPTER FOUR**

### **THE GEOGRAPHIC AND DEMOGRAPHIC CONTEXT OF INTERNATIONAL TRADE IN LESOTHO**

**Ts'oamathe 'Maseribane**

Department of Statistics and Demography, National University of Lesotho

Email: tsoamathe@yahoo.com; [tsoamathe@gmail.com](mailto:tsoamathe@gmail.com)

**Nthatisi Leseba**

Department of Statistics and Demography, National University of Lesotho

Email: nleseba@gmail.com

&

**Mapitso Lebuso**

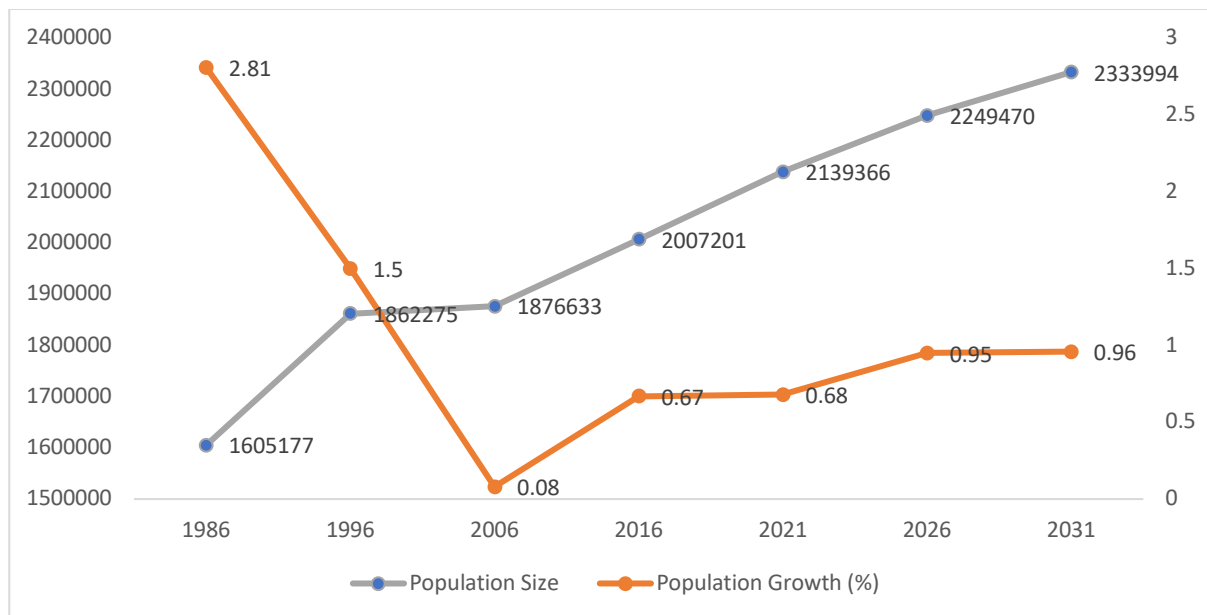
Department of Statistics and Demography, National University of Lesotho

Email: mapitsol2000@gmail.com; mapitsol2000@yahoo.com

## 4.1 Introduction

The world's population has been unevenly growing with other countries experiencing rapid growth while other countries' population has been stationary. The world's population is more than three times larger than it was in the mid-twentieth century, with an average annual rate of 0.8 percent over the period 1700 to 2015 (Wesley and Peterson, 2017; United Nations (UN), 2022). Recently, the global human population reached 8.0 billion in mid-November 2022 from an estimated 2.5 billion people in 1950, and 7.3 billion in 2015 (Wesley and Peterson, 2017; UN, 2022). In the past few years, almost all the growth happened in developing economies, mainly Asia and Africa (UN, 2022). By 2050, Africa's population will account to 20 percent of the world's population (UN, 2022). Figure 4.1 depicts that Lesotho has also been experiencing population growth of its own though at a decreasing rate from 1986 (Bureau of Statistics, 2023). Lesotho is not experiencing rapid population growth compared to some other African nations, however, the country's population dynamics have a bearing on its economic capacity and trade potential.

**Figure 4.1: Lesotho Population Growth and Size (1986 to 2031)**



There has been an ongoing debate on the benefits of population growth on economic growth. Some theoretical arguments and empirical evidence show that robust population growth enhances economic growth while others find evidence to support the opposite argument (Wesley and Peterson, 2017). Population growth can enhance the productivity capacity of the economy on a per capita basis and opens a window of opportunity for rapid income growth and poverty reduction (Bloom, 2020). Wesley and Peterson (2017) highlighted that higher population growth rates lead to higher economic growth rates. Many analysts believed that economic growth in high-income countries is likely to be relatively slow in coming years because population growth in these countries is predicted to slow considerably (Baker, Delong, and Krugman, 2005; Wesley and Peterson, 2017). In support, economic growth is measured by changes in a country's Gross Domestic Product (GDP) which can be decomposed into its population and economic elements by presenting it per capita GDP (Wesley and Peterson, 2017). On the contrary, other authors argue that population growth has been and will continue to be problematic as more people inevitably use more resources available on earth, thereby reducing long-term potential growth (Wesley and Peterson, 2017; Cathen, 2021). Economic growth



in Lesotho has been faced with a few challenges in the past few years. These challenges emanate from political instabilities, a prolonged period of slow growth in South Africa, rising geopolitical tensions, climate change, and COVID-19 pandemic (UNFPA, 2019; The World Bank, 2023). Economic growth averaged 1.7 percent between 2015 and 2017, due to declines in the agricultural output and fiscal challenges (UNFPA, 2019).

This chapter shows how developments in demographic factors are capable of changing international trade in Lesotho and how they are likely to evolve in the coming years. It explores possible future scenarios for each factor and concludes by describing their potential impact on currently observed trade trends.

#### **4.1.1 Importance of Demography for International Trade**

Demography suggests size, growth, and structure of the nation's population, which eventually determines the country's long-term social, economic, and political factors (Bloom, 2020). Demographics can significantly influence the trajectory and methods of economic progress (*ibid*). The commonly quoted expression "Demography is destiny" underscores the significance of demographics in moulding various intricate challenges and prospects that societies encounter, including those closely related to economic advancement and growth (*ibid*).

The world has experienced demographic change with important economic implications (Mason and Lee, 2022). Population growth affects many phenomena such as the nation's age structure, international migration, geographic distribution, and the size of the country's workforce thus influencing economies because of systematic features of the human cycle (Harding, 2017; Wesley and Peterson, 2017). Moreover, demography has shaped trading patterns since antiquity. The asymmetry of demographic change across countries and regions is important for international capital flow (Attonasia et al., 2016; Liu, 2021). It also affects the labour productivity and hence affects domestic interest rates, which can drive cross-border capital flow due to arbitrage forces in the world capital markets (Liu, 2021).

Variations in international population dynamics have been recognized as a factor that shapes comparative advantage and trade composition. Theoretical studies indicate that a country with slower population growth tends to become relatively abundant in capital, while a country experiencing faster population growth becomes relatively abundant in labour over time, resulting in lower capital-labour ratios (referred to as "capital shallowing"). This divergence leads to variations in relative prices in a self-sufficient setting.

While demographics do not predetermine economic growth outcomes, they undeniably play a critical role in determining an economy's growth potential.

Lesotho has a relatively small population compared to many other countries. As of my last 2021, the population was estimated at around 2.2 million people. The population growth rate was moderate (0.68 percent), and this factor has implications for the labour force and consumer market size.

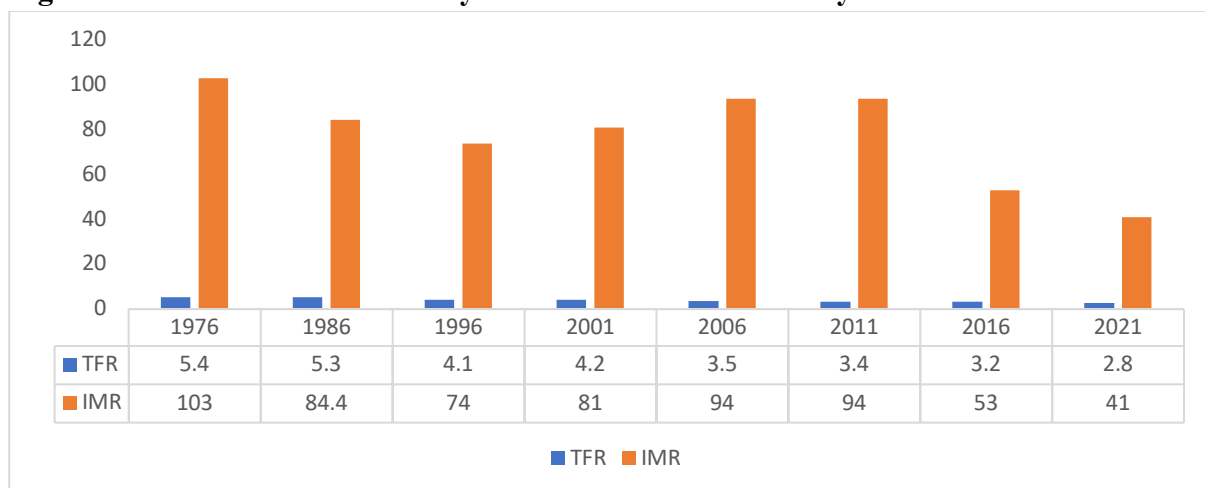
#### **4.1.2 Demographic transition and international trade**

A countries population size and expansion mirror the fundamental influences of mortality, fertility, and international migration (Bloom, 2020). These influences vary substantially across countries and play a pivotal role in explaining notable disparities in economic activities and outcomes. This encompasses the accumulation of physical capital, labour force, and human capital, as well as

economic well-being, growth, and levels of poverty and inequality. Additionally, these factors typically respond to economic shocks and can also be influenced by political events such as the commencement and conclusion of conflicts and governance crises. In numerous developing economies, population growth has been linked to a phenomenon known as the "demographic transition," which involves the shift from high mortality rates to lower ones, followed by a corresponding decline in birth rates.

The introduction on demographics is always associated with several life cycle elements such as birth, death, childhood, retirement, pension systems, age-dependent productivity, elastic labour supply and pension policies (Liu, 2021). The world has been experiencing dramatic demographic change in the past decades, which was driven by the declining mortality and fertility thus increasing the life expectancy (Collen, 2021; Liu, 2021). While the world shares a similar long-run trend, regions or countries are in different stages of the demographic transition, particularly between developed and developing countries (Lui, 2021). In most advanced countries, the demographic transition is well while in developing countries, the demographic transition is less advanced, (Fukumota and Kinugasa, 2015; Collen, 2021). Lesotho has also been experiencing a significant demographic transition over the last 50 years (The World Bank, 2016). Both mortality and fertility have been declining sharply. Between 1950 and the early-1990s, infant and child mortality fell by 60 percent and life expectancy at birth increased by almost 19 years (The World Bank, 2015).

**Figure 4.2: Lesotho Total Fertility Rates and Infant Mortality Rates 1976-2021**



On the other hand, international trade has played a significant role in the differential timing of demographic transition across countries and has been a major determinant of the distribution of the world's population (Galar and Mountford, 2008). Furthermore, international trade contributed to the divergence in the timing of the demographic transition and the emergence of sustained economic growth across countries (Galar, 2012). The expansion of international trade enhanced the specialisation of industrial economies in the production of industrial, skill intensive goods (Galar, 2012). International trade has an asymmetrical effect on the industrial and non-industrial economies (Galar and Mountford, 2008). In industrial nations, the gains from trade have been directed primarily towards investment in education and growth in output per capita, a greater proportion of the gains from trade in non-industrial nations has been channelled towards population growth (Galar and Mountford, 2008). On the other hand, the demographic transition in these non-industrial economies (developing countries) has been significantly delayed, increasing further their relative abundance of unskilled labour, delaying their process of development (Galar and Mountford, 2008).

## 4.2 Demographic Change and International Trade

There exist numerous demographic factors that can impact a country's trade balance. Nations with substantial populations often possess expansive consumer markets, potentially fostering greater domestic consumption and a heightened demand for both domestically manufactured and imported products (Investopedia, 2023). Similarly, rapid population growth can result in an increased pool of available labour, which may contribute to heightened domestic production and, potentially, increased exports.

The country's age structure greatly influences the macroeconomy through labour force and savings (Fukumoto and Kinugasa, 2015). Age structure affects the economic growth because population in different labour forces contribute differently to international trade (Fukumoto and Kinugasa, 2015). In a broader context, a youthful population can lead to increased participation in the labour force, potentially enhancing productivity. This scenario can bolster industries focused on exporting goods and strengthen the country's capacity to manufacture and sell products abroad. Conversely, at the other end of the spectrum, an aging population can lead to a shrinking workforce, affecting the demand for specific goods and services and influencing trade patterns (Investopedia, 2023).

### 4.2.1 Demographic change and the composition of demand

International trade is largely affected by the demand for a nation's goods and services (WTO, 2013). Changes in demographics are impacting both the quantity and the makeup of consumption, which in turn have consequences for trade patterns. The demographic makeup has a dual impact on bilateral trade, encompassing both a scale effect and a structural effect (Tian, Yao and Zhou, 2011). The "scale effect" pertains to how a higher proportion of working-age individuals in the exporting country can lead to increased production and exports (*ibid*). Likewise, a higher working-age ratio in the importing country can generate greater income and consequently higher imports (*ibid*). On the other hand, the "structural effect" highlights that alterations in the exporter's working-age ratio can result in changes in its export composition based on evolving factor endowments (*ibid*). There are two demographic phenomenon that have a bearing on consumption thus affecting international trade, namely the "youth bulge" and "demographic aging". Both the "youth bulge" and "demographic aging" directly impact the working-age ratio.

### 4.2.2 Youth Bulge and Consumption Demand

The youth bulge is a common phenomenon in many developing countries, and, in the least developed countries (Lin, 2012). Many developing countries have young populations because of recent decades of high fertility along with improvements in child survival (Ashford, 2007; Liu, 2021). Youth bulge is an outcome of the fast dropping fertility rates in most developing countries (Jimenez et al, 2006). As youthful populations become older and have fewer children than the previous generation, a bulge in the working age population can result (Ashford, 2007). When there are more working-age adults (usually defined as ages 15-64) relative to children under 15 and the elderly, then the working aged have lower dependency burden (Ashford, 2007). Lower dependency ratios tend to raise savings, which in turn helps finance more investments and boosts output (Ashford, 2007; Collen, 2021). This window of opportunity is referred to as the 'demographic dividend'. The demographic dividend refers to the process through which a changing age structure can spur economic growth (Ashford, 2007; Bloom, 2020). Fukumoto and Kinugasa (2017) indicated that, higher share of working-age population in total population leads to higher trade openness. This is because working-age individuals have higher shares and can produce tradable goods (Fukumoto and Kinugasa, 2015). Moreover, if the

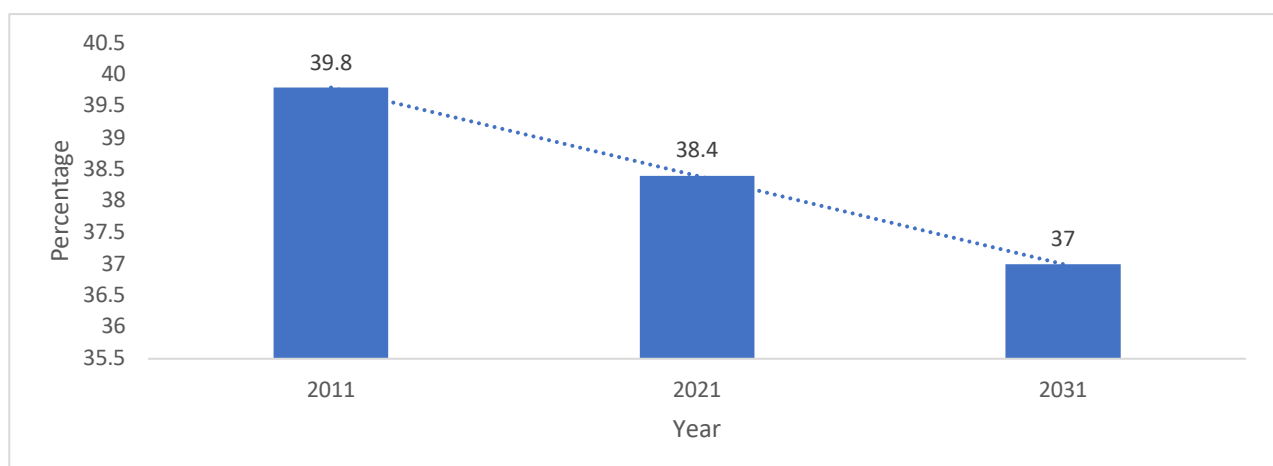
increase in the number of working age individuals can be fully employed in productive activities, other things being equal, the level of average income per capita should increase as a result (Lin, 2012). Studies on the impact of youth bulges and aging on consumption demand have yielded several key findings. Youth bulges, characterized by a significant portion of a population being young adults, can lead to increased consumption demand. Young adults often have high consumption needs due to factors like household formation, marriage, and starting families. Consumer preferences of young populations tend to lean towards goods and services related to housing, education, healthcare, and leisure activities, stimulating demand in these sectors. Youth bulges can contribute to higher overall consumption levels, particularly in emerging economies, which can be beneficial for economic growth if accompanied by adequate job opportunities.

However, on the other hand, youth bulge offers an opportunity to address these problems by encouraging long-term growth in the economy. Young people can drive industry innovation, creativity, and entrepreneurship. They provide new perspectives and thoughts that can contribute in the removal of traditional barriers to sustainable development. Moreover, youngsters have a greater tendency to be ecologically concerned and devoted to long-term development, making them perfect candidates for blue economy employment.

The extent of the positive effects of demographic dividend and international trade remains an issue of concern, particularly for those countries faced with limited resources for economic growth (Bloom, 2020). As the size of the working-age population increases in some countries and decreases in others- and as the global middle class emerges, the size and the consumption of import demand is also changing with further effects on trade flows (Harding, 2017). Many young countries in Africa tend to have higher consumption, which sucks in imports, while workers in aging countries save to support their retirement (Harding, 2017). Fukumoto and Kinugasa (2015) highlighted that, an increasing population size can decrease trade openness because welfare of a country with small population increases by exporting limited goods and importing many kinds of goods from other countries. On the other hand, youthful populations also need an increase in services such as healthcare and education (Harding, 2017)

Lesotho is experiencing a youth bulge and has seen a surge in the number of young people entering the working-age bracket but has seen a drop in 2021. Youth currently comprise 38.4 percent of the total population (BOS, 2021), a decline from 39.8 percent in 2011.

**Figure 4.3 Percentage of Youth in Lesotho, 2011-2031**



The youth bulge can have both negative and positive implications for international trade in Lesotho.

### ***Positive implications***

1. Increased Labour Force/labour force availability: Youth bulges can result in a larger labour force within a country. In a nation experiencing a youth bulge, as the young adults transition into the working-age bracket, the country's dependency ratio, which quantifies the ratio of the non-working age population to the working-age population, will decrease. If this upsurge in the number of working-age individuals can be gainfully engaged in productive endeavours, all else being equal, the average income per capita is expected to rise. This transformation of the youth bulge into a demographic dividend can be anticipated. This can be advantageous for international trade, as it provides a potentially abundant and often cost-effective workforce. Industries that rely on labour-intensive production methods, such as manufacturing and agriculture, may benefit from a youthful population. The youth bulge in Lesotho signifies a relatively large working-age population. This demographic advantage can translate into a readily available labour force for both domestic industries and potential foreign investors. Industries that rely on labour-intensive manufacturing, such as textiles and apparel, may find Lesotho an attractive destination for setting up production facilities.

2. Growing Consumer Markets: A significant youth population can also translate into a growing domestic consumer market. A youthful population often exhibits specific consumption patterns. Young people tend to be early adopters of technology and have preferences for fashion, entertainment, and digital products. This can stimulate demand for both domestically produced goods and imported products, potentially increasing Lesotho's international trade, particularly in these sectors.

3. Increased Export Potential and Enhanced Youth Entrepreneurship: A youthful population may also foster entrepreneurship and innovation, leading to the development of new products and services that can be exported to international markets. Lesotho can leverage its youth bulge to develop export-oriented industries. Employing right policies and investments in education and skills development, the country can create a competitive advantage in areas like information technology services, which can be exported to international markets. Also, a youthful population and high likelihood of surplus labour can lead to increased migration, with young adults seeking employment opportunities abroad. The remittances sent back by Basotho working abroad can contribute significantly to the country's foreign exchange reserves, potentially positively impacting Lesotho's trade balance.

Lesotho can anticipate these favourable outcomes when its youth is equipped with market appropriate skills, have access to employment opportunities and avenues for economic progress. This can lead to a decrease in the likelihood of social turmoil, consequently enhancing the nation's reputation and stability in the context of international trade relationships.

### ***Negative Implications:***

However, a youth bulge also presents challenges if a substantial cohort of young people encounters difficulties securing employment and earning a satisfactory income, the youth bulge can take on a more negative connotation and be likened to a demographic time bomb (Lin, 2012). If a country's economy does not generate enough job opportunities to absorb the growing labour force, it can lead to high unemployment rates, social unrest, and potentially high emigration leading to brain drain, which may have negative economic consequences. This is because a significant group of disheartened youth has the potential to evolve into a source of social and political instability. A youth bulge results

in high rates of unemployment among the 15–25 age group, and employment prospects are normally reduced, for instance the current unemployment rate in Lesotho is 22.5 percent (LFS, 2019).

In summary, a youth bulge can have both positive and negative implications for international trade, depending on how a country manages its demographic dividend. It can lead to increased labour supply, consumer demand, and potential for entrepreneurship, but it also requires careful economic planning and job creation to fully harness the benefits and address the challenges associated with a youthful population.

#### **4.2.3 Aging Population and Consumption Demand**

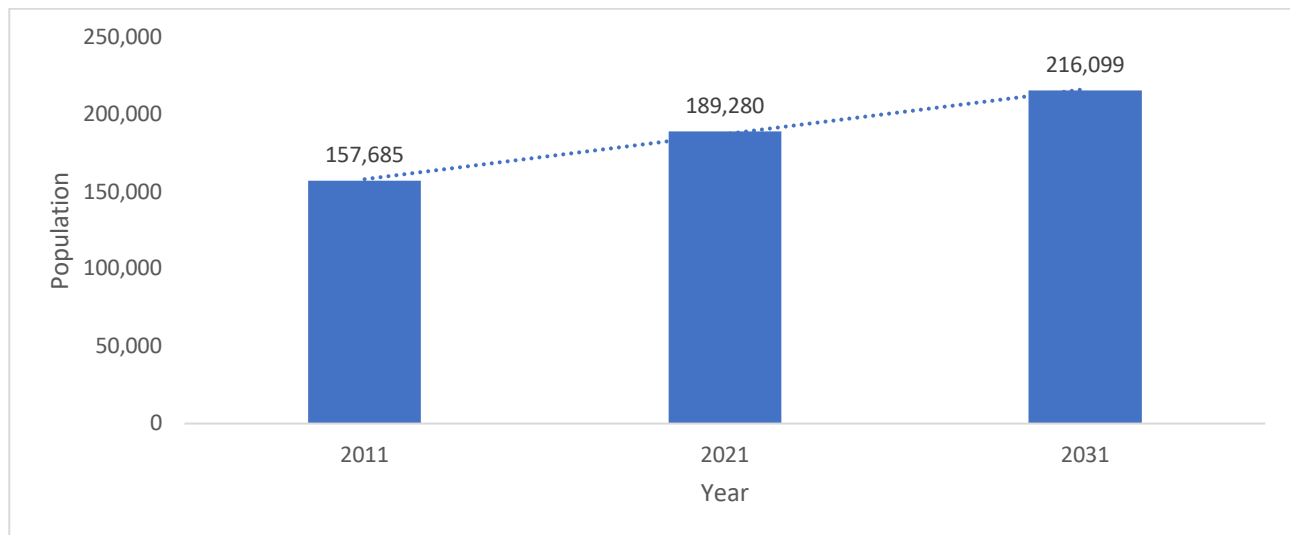
The world population is undergoing an unprecedented change due to continual declines in fertility and improvement in life expectancy. This demographic change has resulted in increasing numbers and proportions of people who are over 60 (Garcia et al., 2019). As a result, the first time in history when there will be more older people than younger people is rapidly approaching (WHO, 2012). A population is said to be aging when those aged 60 year and above constitute 10 percent or above of the total population.

Aging is the dominant demographic trend of the 21<sup>st</sup> century reflecting an increase in longevity, declining fertility, and the progression of large cohorts to older ages (Bloom, 2020; Yang et al., 2021). Older people now lead long healthier lives than at any time in the past, which allows them to live beyond official retirement age (Collen, 2021). Aging in advanced countries has been underway for a considerable time, and has coincided with income growth (Collen, 2021). The working-age population drops significantly with aging, and human capital depreciation continues to accelerate (Yang et al., 2021). This is due to the gradually weakening or disappearing demographic dividend thus slowing down economic growth. It is important to balance the country's domestic demands and external demand (Estrada et al., 2011). An aggregated consumption depends on the dependency ratio of the country- especially the old-age dependency (a share of the elderly population depending on the working class) (Estrada et al., 2011; Yang et al., 2021). Individuals tend to save for retirement when they are working and dissave for their consumption when they retire (Yang et al., 2021). Moreover, the elderly population has a lower purchasing power and limited consumption capacity (Nie, 2019).

However, in some cases high old-age dependency is likely to increase aggregated private consumption (Estrada et al., 2011). The higher the dependency of the elderly population, the higher the average consumption tendency (Nie, 2019). Moreover, the aging population also increases the consumption of health care, which has led to the rapid development of the healthcare industry (Nie, 2019).

This emerging trend of population aging is poised to introduce a fresh perspective to the development challenges faced by Lesotho (BOS, 2012). Lesotho elderly population has increased from 157,685 in 2011 to 189,280 in 2021 and a further increase to 216,099 is projected by 2030, which is bordering on 10 percent.

**Figure 4.4: Lesotho Population Age 60 Years and Above**



Research on population aging and its impact on international trade has yielded several important findings (WTO, 2013) including the following aspects:

1. **Shift in Consumption Patterns and Impact on Export Sectors:** As a population ages, there tends to be a shift in consumption patterns. Older individuals often spend more on healthcare, pharmaceuticals, and services related to leisure and retirement. Consequently, countries with aging populations may experience increased demand for these specific goods and services, including imported medical equipment and medications. Export-oriented industries can be affected by population aging. For example, sectors related to healthcare and elderly care services may see increased demand, potentially leading to growth in exports in these areas.
2. **Labour Force Implications:** Population aging can result in a shrinking labour force, which may affect a country's competitiveness in labour-intensive industries. In response, countries may seek to invest in automation and technology to maintain their competitiveness in international trade.
3. **Dependency Ratios:** Rising elderly populations can increase dependency ratios, meaning there are more non-working individuals (young and old) relative to the working-age population. This can put pressure on social welfare systems and may influence trade policies, such as tariff adjustments to generate revenue for healthcare and pension funding.
4. **Importance of Services Trade:** As populations age, services trade can become increasingly important. This includes not only healthcare services but also tourism and retirement services. Countries with appealing retirement destinations may see an influx of elderly expatriates, stimulating services trade.
5. **Economic Growth and Innovation:** Aging populations may pose challenges to economic growth, but they can also stimulate innovation in industries catering to elderly needs, such as assistive technologies and home healthcare products. These innovations can lead to export opportunities.
6. **Cross-Border Healthcare:** Population aging can lead to cross-border healthcare services, where individuals seek medical treatment abroad. This can create opportunities for countries with advanced healthcare systems to attract medical tourists and generate revenue through medical tourism.

7. Pension and Investment Flows: The aging population may result in significant pension and investment flows. Pension funds often invest in international markets, impacting foreign exchange rates and asset markets.

8. International Retirement Migration: Some countries become attractive retirement destinations for elderly individuals from other countries. This can drive immigration and boost the local economy, including real estate and consumer goods sectors.

In conclusion, population aging has multifaceted effects on international trade. While it can bring about changes in consumption patterns and impact specific industries, it also presents opportunities for innovation, services trade, and investment flows. Policymakers and businesses should carefully consider these dynamics to adapt to the challenges and capitalise on the opportunities associated with an aging population in the global context.

In summary, the interplay between youth bulges and aging populations has significant implications for consumption demand, both at the individual and societal levels. These factors are essential considerations for future trade planning.

#### **4.2.4 Migration and International Trade**

Migration and international trade are complex and interconnected phenomena that have been the subject of extensive research by various scholars. International migration is often substitute for both international movement of capital and international trade of goods and services (Razin and Sadka, 1992). The presence of large diasporas in a country is often correlated with an increase in bilateral trade between the migrants' host countries and their countries of origin (Genc, 2014; Tom, 2021; UN, 2021). The bilateral impact of immigration on merchandise trade tends to slightly favour the host country by lowering the transactional cost for trade (Genc, 2014; Tom, 2021). Transaction cost effects are expected to boost only imports to the host country because they arise through the consumption channels due to immigrant's demand and for the product from their home countries (Genc, 2014). Temporary movement of persons to provide the services as a means by which international trade in services is conducted (Tom, 2021). International trade is influenced by type of immigration, the size of the immigrants in the host country, migration policies, bilateral trade agreements and tariffs (Tom, 2021).

Emigration, which refers to the movement of individuals out of one country to settle in another, can have several implications on international trade, both for the country of origin (the emigrant's home country) and the host country (the destination of emigrants). Emigrants often send money back to their home countries in the form of remittances. These remittances can have a significant positive impact on the balance of payments and the economy of the home country. Remittance inflows can be used to purchase imported goods and services, contributing to an increase in international trade for the recipient country.

One striking aspect of Lesotho's population dynamics is the high rate of emigration, particularly to South Africa. Lesotho has a unique and long migration history linked to South Africa (ACP (Observation of Migration), 2010; Cobbe, 2012). Migration mainly to South Africa has been a significant livelihood strategy in Lesotho (ACP, 2010). Lesotho once had the distinction of having higher proportion of its labour force temporarily employed outside its borders than any other country



(Cobbe, 2012). Many Basotho seek better economic opportunities abroad, leading to a significant diaspora population. This migration presents opportunities and challenges for Lesotho's economy.

This migration phenomenon has profound implications for international trade. Here are some key implications of emigration on international trade for Lesotho:

1. **Remittances as a Source of Income:** Remittances from Basotho migrants, along with their demand for goods and services, stimulate trade particularly between Lesotho and South Africa. The remittances to Lesotho form a vital part of the country's economy and have a significant positive impact on the balance of payments, contributing to the livelihoods of families and communities. Remittance inflows can be used to purchase imported goods and services, contributing to an increase in international trade
2. **Brain Drain and Skill Loss:** Despite the remittances inflow emigration also drains Lesotho of skilled labour as the skilled and educated individuals leave the country in search of better opportunities abroad. In some cases, this creates labour shortages in specific industries in the country, leading to increased labour costs and potential production disruptions. This loss of skilled labour negatively impacts the country's ability to innovate, develop industries, and participate in high-value-added sectors of international trade.
3. **Consumer Preferences:** Emigrants who settle in host countries often maintain their local culture and consumer preferences. This can result in changes in the types of goods and services they demand in host countries, potentially leading to increased trade in certain product categories. As such Basotho in the diaspora may spark demand for ethnic foods or products from Lesotho, thus driving demand for imports from Lesotho in the host nations thus increasing exports for Lesotho.
4. **Diaspora Networks:** Emigrant communities in host countries often form strong networks and connections with their home countries. These diaspora networks can facilitate international trade by acting as intermediaries, promoting trade-related information exchange, and creating business opportunities. Diaspora communities can also help bridge cultural and linguistic gaps, making it easier for businesses to enter foreign markets. On the same token Basotho diaspora networks can benefit Lesotho in the same manner.
5. **Remittances and Exchange Rates:** The inflow of remittances can affect exchange rates. When a significant amount of foreign currency is converted to maloti (the local currency), it can influence exchange rate levels, potentially impacting Lesotho's export competitiveness.

In summary, emigration can have diverse implications for international trade, depending on factors such as the scale of emigration, the skills of emigrants, and the economic conditions in both the home and host countries. While remittances can boost international trade in Lesotho emigration can also lead to skill loss. Diaspora networks and consumer preferences can create trade opportunities by driving demand for imports from Lesotho in host countries. Policymakers must carefully consider these implications and develop strategies to maximise the benefits and mitigate the challenges associated with emigration on international trade for Lesotho.

### ***Feminisation of Migration and International Trade***

The "feminisation of migration" is a term that describes the increasing trend of women participating in international migration flows (IOM, 2023). This phenomenon has significant implications for both

migration and international trade and has been the subject of considerable research and analysis. Historically, international migration has often been associated with male labour migration. However, in recent decades, there has been a notable increase in the number of women migrating for work, particularly in sectors like domestic work, healthcare, and manufacturing. Females currently represent over half of international migrants in the more developed areas, and slightly less than half in the less developed and least developed areas of the world. Women make up 48 percent of international migrants globally, and more women are migrating on their own, including as heads of household, than ever before (IOM, 2018).

It has been declared by some scholars that feminisation is a core dimension of the new age of international migration and globalisation (Donato et al, 2016).

Migration is a significant livelihood strategy for women and women-headed households (Masanja, 2012). Though Lesotho is a highly patriarchal society, several factors in recent years, set the basis for shift in migration flows and composition (Rocchi, 2016). More and more women became wage earners, and as such, substituted men in migration mainly towards South Africa. Nevertheless, the income earned by women is not at the same level as the one of men. As a consequence, households experienced a decrease in the global from remittance because female's wages were and are much lower than those of males (Rocchi, 2016) Women's migration is motivated by opportunities for trading in other countries.

The textile and apparel industry is a cornerstone of Lesotho's economy, providing employment to a substantial portion of its population, including many women. The United States is a major market for Lesotho's textile exports, facilitated by trade agreements like the African Growth and Opportunity Act (AGOA). Basotho workers play a critical role in the production of textiles and garments destined for export to the U.S. market. Women who migrate for employment contribute to both the sending and receiving countries' economies. They often send remittances back to their home countries, which can have a substantial impact on the recipients' well-being and contribute to increased consumer spending and investment in the home country.

The increased participation of women in the labour force of both sending and receiving countries can influence international trade dynamics. Here are some ways in which this happens:

- a. Exports of Women's Labour: Sending countries benefit from the export of women's labour, which often contributes to trade surpluses through remittances.

- b. Import of Women's Labour: Receiving countries may rely on female migrant labour, particularly in sectors such as domestic work and healthcare. This can affect trade in services.

- c. Consumer and Labour Market Effects: The presence of female migrant workers in receiving countries can lead to increased consumer demand for certain goods and services, including those associated with healthcare and household needs.

- d. Supply Chain Roles: Women often play crucial roles in global supply chains, particularly in industries like textiles and electronics manufacturing. Their labour contributes to the production of goods that are subsequently exported.

In summary, the feminisation of migration is a significant global trend with multifaceted implications. It underscores the evolving nature of international labour markets, the importance of gender equality

and workers' rights, and the ways in which the participation of women in migration can influence international trade patterns and economic development in both sending and receiving countries.

Feminisation of migration for Lesotho has significant implications for international trade in several ways:

1. **Remittances and Household Income:** As more women migrate, they often send remittances back to their home countries to support their families. These remittances can have a substantial impact on household incomes in their home countries, which can, in turn, affect consumption patterns and demand for imported goods. According to the World Bank, remittances to low and middle-income countries reached \$554 billion in 2019, with a substantial portion coming from female migrants. These remittances can stimulate consumption and affect demand for imported goods and services in sending countries. Higher remittances may lead to increased imports, particularly of consumer goods, as families have more disposable income.

2. **Cultural Exchange and Influence:** Female migrants often bring with them their cultural values, practices, and preferences. This can lead to the exchange of cultural goods and services between sending and receiving countries. For example, the demand for certain types of cuisine, clothing, and entertainment may increase in response to cultural influences from female migrants, leading to changes in trade patterns. This can impact trade patterns, promoting cultural exchange and trade in cultural products (UNCTAD, 2018).

3. **Impact on Industries:** The influx of female migrants can affect the composition of the labour force in both sending and receiving countries. The feminisation of migration can create labour shortages in certain industries in sending countries, especially those that traditionally rely on female workers, such as domestic work, healthcare, and education. In such cases, sending countries may have to import goods or services to compensate for the labour shortage, potentially affecting trade balances.

4. **Gender-Specific Trade Policies:** Governments and international organisations may introduce policies and initiatives to address the specific needs and rights of female migrants. These policies may include provisions related to labour rights, human trafficking prevention, and healthcare. For instance, organisations like the UN and the World Trade Organization (WTO) have recognised the need for gender-responsive trade policies. For instance, the WTO's "Women and Trade" initiative focuses on addressing barriers faced by female entrepreneurs and workers in international trade, which underscores the gender-specific impact of trade policies. These measures can indirectly impact trade by influencing labour conditions and economic stability.

In conclusion, the feminisation of migration has multifaceted implications for international trade. While it can lead to changes in consumption patterns, labour force dynamics, and cultural exchanges, it also raises important questions about labour rights, gender equality, and the need for policies that address the unique challenges faced by female migrants in the context of international trade. It is essential for governments and international organisations to recognise and address these implications to ensure the well-being and rights of Basotho female migrants in the global economy.

### ***Urbanisation and International Trade***

Urbanisation is the inevitable development process of a country. Urbanisation is an important indicator of the economic development of a country (Yang and Tang, 2017). With the rapid

development of the economy and society, the population is continuously transferred from agriculture to industry or service industry (Yang and Tang, 2019). The ongoing industrial restructuring, industrial transfers, economic globalisation, strengthened free trade policies and agglomeration as well as agricultural modernisation have promoted a move from rural areas to urban areas (Wang et al., 2022). In 2009, for the first time in history, the urban population of the world was higher than the rural population, with many people in cities or towns as well as slums (Schram et al., 2009; Zhang and Wan, 2017). Consistent with the global trend, Sub Saharan Africa has been following a similar trend with an urban population growth rate of 5percent per annum (Schram et al., 2013). Urbanisation has a strong positive impact on exporting and vice versa. This is because, the domestic trade cost which affects urbanisation can be critical to a country's ability to export (Thia, 2015). In addition, Liu and Liang (2022) stipulated that, urbanisation is usually accompanied by the rise of foreign trade because it promotes higher consumption patterns, fixed assets, and infrastructure investments. It also fosters a more prosperous commercial economy and culture, which in turn has a broader impact on foreign trade (Liu and Liang, 2022).

Urbanisation accelerates the agglomeration of factors of production such as human capital in a specific space, thus improving the total factor productivity of cities and towns (Henderson, 2008; Liu and Lian, 2022; Wang, 2022). Moreover, it improves consumption by influencing the resident's income and demand for products (Wang et al., 2022). The rise of income increases the amount and quality of consumer demand, which will make them more inclined to import ways to solve the problem of quantitative and structural imbalances between supply and demand (Liu and Liang, 2022).

Urbanisation and international trade are interrelated phenomena that have been the subject of extensive research. Here are some key findings and insights from studies on this topic:

1. **Urbanisation Drives Trade:** Several studies, including research by Cole and Elliott, have shown that urbanisation tends to increase international trade. As people move to urban areas, there is a greater demand for goods and services, leading to increased trade both domestically and internationally.
2. **Urbanisation and Consumer Demand:** Urbanisation leads to changes in consumption patterns. Urban populations often have higher incomes and more diverse preferences, which can drive demand for a wider range of imported goods and services. This phenomenon has been documented in research by economists like Duranton and Turner.
3. **Trade Specialization in Urban Areas:** Urban areas tend to specialise in specific industries or sectors. Research by Behrens and Ottaviano has shown that urbanisation leads to a concentration of economic activities, including export-oriented industries. Cities often become hubs for production and trade in particular sectors.
4. **Global Cities and Trade Hubs:** The concept of "global cities" or "world cities," popularised by scholars like Sassen, emphasises the role of certain urban centres as key nodes in the global economy. These cities serve as hubs for international trade, finance, and services, facilitating global commerce.
5. **Infrastructure and Trade:** Urbanisation often goes hand in hand with infrastructure development. Research by Dollar and Wei has highlighted the importance of infrastructure, including transportation and logistics, in facilitating international trade through urban areas.

6. Trade Costs and Urbanisation: Urbanisation can affect trade costs. Studies by economists like Duranton have shown that urbanisation reduces trade costs by bringing economic activities closer together, which can lead to increased trade between urban centres and with other regions.

7. Informal Trade in Urban Areas: Urban areas often host significant levels of informal trade and economic activities. Research Chen and others has explored the role of informal economies in urban trade, particularly in developing countries.

The big picture is that urbanisation is an important force driving international trade (Thia, 2015). These findings highlight the complex relationship between urbanisation and international trade. While urbanisation can serve as a catalyst for increased trade and economic growth, it also raises important policy and infrastructure considerations for cities and nations seeking to harness the benefits of urbanisation while managing its challenges.

### **4.3 Conclusion and Recommendations**

Lesotho's youth bulge has the potential to significantly impact the country's international trade and economic development. Lesotho needs to adjust its policies in response to the changing demographics. To harness the full benefits of the youth bulge, the government and stakeholders must focus on job creation, education, and economic diversification while also addressing the challenges of youth unemployment and underemployment. As a way of skills development Lesotho needs to ensure that its young population is equipped with the skills needed to participate in a globalised workforce. Managing the employment and economic aspirations of a youthful population is crucial for political and social stability. When young people have opportunities for employment and economic advancement, it can reduce the potential for social unrest, which can positively impact a country's image and stability in international trade relations.

Lesotho could also consider exportation of labour to negate the negative implication of the youth bulge like high unemployment rate thus utilise its work force effectively. However, it will be of paramount importance to balance the benefits of labour exportation with appropriate strategies and policies, plus getting best practices from other countries with experience in the matter, such as Nepal and the Philippines. If this is done strategically the labour exportation can encourage economic diversification despite Lesotho's small market base. It can lead to the development of specialised industries related to labour migration, such as recruitment agencies, language training centres, and financial services catering to migrants which will have a spill over effect on trade patterns. This diversification can create new economic opportunities and reduce dependence on a limited range of industries.

For the encroaching aging, Lesotho will need policies early to offset potential risks of the phenomenon such as focusing on healthcare and pension systems to support the elderly. Also Encouraging older individuals to remain in the workforce or engage in productive activities can help offset potential decreases in consumption.

Lesotho should also position itself strategically to benefit from demographic shifts in other countries as these have international economic consequences. For example, an aging population in one country can lead to increased demand for imported goods and services, affecting global trade patterns which Lesotho can harness. Furthermore, its youth bulge can be a source of migration as young people seek employment opportunities elsewhere, potentially affecting both the home and host countries' consumption patterns.

When addressing the intersection of migration and trade Lesotho must embark on strategies and policies that maximise the positive impact of remittances on the national economy. On feminisation of migration Lesotho must piggy-back on the momentum built by the international community and develop gender-responsive trade policies that recognise the unique challenges and opportunities faced by female migrants. These policies should promote gender equality in trade-related activities, reduce barriers, and facilitate the economic empowerment of female migrants. Policies must prioritise the protection of the labour rights and well-being of female migrants thus ensuring safe working conditions, fair wages, and legal protections against exploitation and discrimination is essential. Also, combatting human trafficking and exploitation of female migrants should be a priority. Addressing the policy implications of the feminisation of migration on international trade requires a multifaceted approach that promotes gender equality, protects the rights of female migrants, and leverages their contributions to enhance trade and economic growth.

Policymakers should invest in data collection and research to deepen understanding the implications of population dynamics on international trade for Lesotho. This information can inform evidence-based policy decisions and strategies for international trade in the country.

Lesotho's unique geographic and demographic characteristics have shaped its trade patterns. In conclusion, Lesotho's population dynamics and international trade are closely intertwined, with both presenting unique challenges and opportunities. The country's small population size, youthful demographic, and encroaching population aging require careful consideration in policy planning. For Lesotho to leverage its demographic potential and promote sustainable economic growth inclusive of international trade, it must invest in education and skills development, and diversify its economy. These findings underscore the need for a holistic approach to addressing the complex dynamics of population and trade in Lesotho.

## References

Aassve, A., Chiocchio, F., Mencarini, L., Palladino, M. G., & Sartori, M. (2018, April). Putting trade and births together; Estimating the effects of globalisation on fertility. In *PAA 2018 Annual Meeting*. PAA.

Alize le Roux (2023) Lesotho. Published online at [futures.issafrica.org](https://futures.issafrica.org). Retrieved from <https://futures.issafrica.org/geographic/countries/lesotho/> [Online Resource] Updated 7 June 2023

Batini, N., Callen, T., & McKibbin, W. J. (2006). The global impact of demographic change.

Bloom, D.E. & Sachs, J.D. (1998) "Geography, demography, and economic growth in Africa", *Brookings Papers on Economic Activity*, no. 2, pp. 207-295.)

Bloom D.E. (2020). Changing Demographics and Economic Growth. IMF Finance & Development <https://www.imf.org/en/Publications/fandd/issues/2020/03/changing-demographics-and-economic-growth-bloom> Accessed on 28 August, 2023.

Bureau of Statistics. (2012). Population Aging in Lesotho. Population Statistics Unit. Ministry of Development Planning.

- Bureau of Statistics (BOS). (2021). 2021 Lesotho Demographic Survey. 'Population Dynamics Report.' Vol. IIIA. Ministry of Development Planning. Bureau of Statistics. Maseru. Lesotho
- Lesotho labour force survey, 2019
- Donato, K. M., & Gabaccia, D. (2016). The global feminisation of migration; Past, present, and future. *Migration Policy Institute*, 1.
- Garcia M.A., García C. and Markides K. (2019). The Demography of Aging. University of Nebraska – Lincoln. Department of Sociology.
- <https://digitalcommons.unl.edu/cgi/viewcontent.cgi?article=1645&context=sociologyfacpub>  
Accessed on 13 September, 2023.
- Henderson, J. Vernon and Storeygard, Adam and Roberts, Mark, Is Urbanisation in Sub-Saharan Africa Different? (June 1, 2013). World Bank Policy Research Working Paper No. 6481, Available at SSRN; <https://ssrn.com/abstract=2280643>
- Hendi AS. Globalisation and Contemporary Fertility Convergence. Soc Forces. 2017 Sep 1;96(1);215-238. doi; 10.1093/sf/sox044. Epub 2017 May 25. PMID; 29398728; PMCID; PMC5791912.
- Internationalis, C. (2010). The Female Face of Migration. Background paper. Retrieved May, 28, 2012.
- Inayatullah, Sohail. (2016). Youth bulge; Demographic dividend, time bomb, and other futures. 21. 21-34. 10.6531/JFS.2016.21(2).
- Investopedia. (2023). Which Factors Can Influence a Country's Balance of Trade?  
<https://www.investopedia.com/ask/answers/041615/which-factors-can-influence-countrys-balance-trade.asp#:~:text=Similarlypercent20Cpercent20rapidpercent20populationpercent20growthpercent20can,participationpercent20andpercent20potentiallypercent20increasedpercent20productivity.>  
Accessed on 28 August 2023.
- Lin J. Y. (2012). Youth Bulge; A Demographic Dividend or a Demographic Bomb in Developing Countries? World Bank. <https://blogs.worldbank.org/developmenttalk/youth-bulge-a-demographic-dividend-or-a-demographic-bomb-in-developing-countries> Accessed on 12 September, 2023
- Ravenstein, E. G. (1985). The Laws of Migration; Journal of the Statistical Society of London. Vol. 48. No.2. Blackwell Publishing for the Royal Statistical Society pp. 167-235
- Rocchi, A., & Del Sette, P. (2016). Lesotho; rural development and migration. Retrieved on September, 17, 2018.
- Thia, Jang Ping. (2015). Trade and Urbanisation. The World Economy. 39. 10.1111/twec.12312.
- Tian W., Yao Y., and Zhou Y. (2011). Demography and International trade. Economics  
<https://www.semanticscholar.org/paper/Demography-and-International-Trade-1-Tian-Yao/1e1ce42e4bbfa11037f095142b510c0477988ddc> Accessed on 18 August, 2023.
- World Trade Organisation. (2013). World Trade Report Part C; Fundamental Economic

Factors Affecting International Trade. [https://www.wto.org/english/res\\_e/booksp\\_e/wtr13-2c\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/wtr13-2c_e.pdf)  
Accessed on 28 August, 2023

WTO. (2017). "The Role of Women in Trade." WTO Report.

UNCTAD. (2018). "Trade and Gender Linkages: An Analysis of the Literature." UNCTAD Research Paper No. 1.



**CHAPTER FIVE**  
**SOCIO-CULTURAL AND RELIGIOUS CONTEXTS OF INTERNATIONAL**  
**TRADE IN LESOTHO**

**Josphine Hapazari**

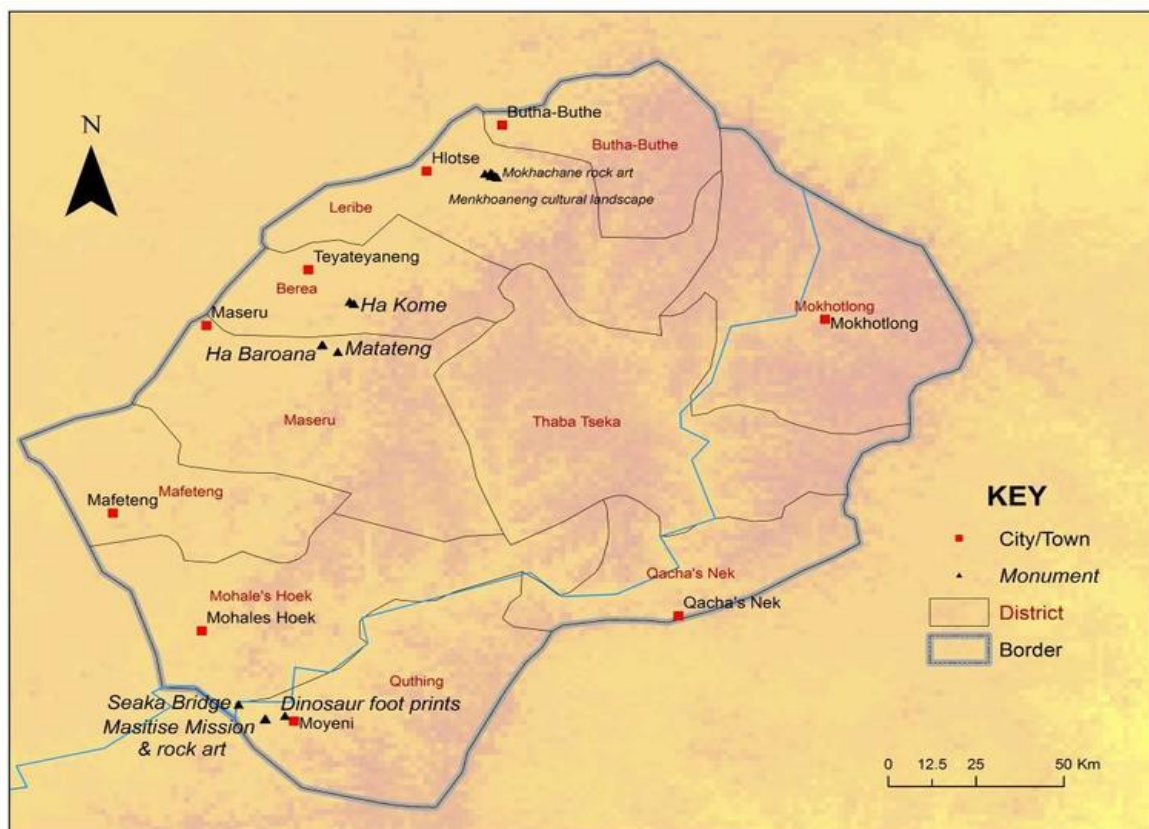
Department of Sociology and Social Work

[jbhiri.hapazari@gmail.com](mailto:jbhiri.hapazari@gmail.com)

## 5.1. Background of Lesotho

Lesotho is a relatively small Southern African country that covers a geographical area of 30,355 km<sup>2</sup> and it is divided into ten (10) administrative districts. The country is not only a landlocked, but also an enclave of South Africa, which shares boundaries with three (3) provinces of South Africa, namely: Free State, KwaZulu-Natal and Eastern Cape. Its geographic location is one of the factors which make it highly dependent on South Africa. The Kingdom of Lesotho is a member of the Southern African Development Community (SADC) and it is was one of the members of Southern African Customs Union (SACU). It is ruled with a constitutional monarchy, similar to the English monarchy which is attributable to its colonial history, whereby Lesotho was one of the British colonies. Figure 5.1 shows some of Lesotho's cultural sites.

### Figure 5.1: Map of Lesotho



Source: Sinamai, A., Odiaua, I., Katsamudanga and Ndlovu (2017).

The country has a population of ~2.3 million people; comprising of ~59% females and ~49% (United Nations, 2023). It is characterized by a youthful population, whereby 84% of the population is less than 50 years of age (BOS, 2016). Table 5.1, based on National Population and Household Census (NHPC) Report of 2016 (BOS, 2016) shades more light on Lesotho's demographic configuration. The life expectancy age is estimated at 54.91 years (United Nations, 2023).

**Table 5:1: Percentage distribution of Lesotho Population by Age**

Age[Years]	No. of People	Percentage (%)
0 – 19	842 969	42
20 – 39	686 577	34
40 – 49	171 013	8
≥ 50	301 387	16

<b>Total</b>	<b>2 001 946</b>	<b>100</b>
--------------	------------------	------------

Notably, 42% of the population is under the age of 20. The very high proportion of the population who are young puts considerable pressure on the educational system, which is already under severe stress.

In Lesotho, poverty is deeply entrenched in rural areas, where about 70% of the people live with more than 70% depending on agriculture for food and income (World Bank, 2022; IFAD, 2003). The unemployment and poverty levels are high despite efforts made by the Lesotho government to eradicate these two social problems (UNDP, 2022; Hapazari, 2019). Precisely, the unemployment rate in Lesotho stands at 22.5% and 32.4% of the population live below the poverty line (UNDP, 2022).

However, Lesotho is not only characterised by social problems, such as unemployment and poverty, there are numerous positive aspects relating to this magnificent country. For instance, Basotho are known to be very peaceful and accommodating to foreign nationals. As such, despite Lesotho's close proximity to South Africa, where xenophobic attacks against foreigners occur, such practices against foreign nationals have not been reported in Lesotho. This is so, notwithstanding the significant presence of diverse foreign nationals from various countries, most notably China, India, Pakistan, Nigeria, Zimbabwe, and Ghana. Furthermore, most Chinese and Pakistan nationals own businesses in Lesotho. According to Jeppesen and Bezuidenhout (2019), in 2012, approximately 42% of Lesotho garment firms and plants had Taiwanese origins, while another 40% had South African origins.

Lesotho's exports are dominated by natural and mineral water, garments, diamonds, and wool. Water is exported to South Africa while wool is largely exported to South Africa, China, India and Japan (World Bank, 2023). Due to geographic proximity South Africa is Lesotho's top trading partner, in terms of both imports and exports. Other main trading partners include United States of America, India, Belgium and Eswatini and some of the products imported from these trading partners include petroleum oils, knitted or crocheted fabrics, electrical energy and woven nylon fabrics (World Bank, 2023). Lesotho is a member of the World Trade Organisation. One of the roles of the WTO is to ensure trade flows freely so that its benefits can be shared widely (WTO, 2023).

There are three government Ministries that are central to issues relating to trade, culture and tourism. Trade issues are dealt with by the Ministry of Trade, Industry, Business Development and Tourism, whose vision is to develop a conducive environment for trading, industrialisation, tourism and investment promotion for all traders, investors and cooperatives in Lesotho. Culture issues fall under the Ministry of Gender, Youth, Sports, Arts, Culture and Social development. Information issues are dealt with by the Ministry of Information, Communications, Science, Technology and Innovation. The key government entity that engages with foreign investors is the Lesotho National Development Cooperation (LNDC).

As the world has become more interconnected, every country always looks across its borders and even abroad, with the aim to expand trade relations. Similarly, Lesotho has always been making efforts to improve its trade initiatives. Based on the preceding background, this chapter seeks to answer the following key questions.

- RQ1: What constitute the socio-cultural context of Lesotho?
- RQ2: What constitute the religious context of Lesotho?

- RQ3: How does the socio-cultural and religious contexts of Lesotho aid International Trade?
- RQ4: How does the socio-cultural and religious context of Lesotho hamper International Trade?

The chapter paints the social and religious context of Lesotho and how it may or may not affect international trade. More importantly, which goods and services, based on their socio-religious contexts can Lesotho sell. This chapter argues that cultural and religious homogeneity create conducive environment for international trade.

## **5.2. Literature review**

International trade contributes enormously to the economic growth of nations globally, Lesotho included. Amongst other factors, the socio-cultural and religious contexts of any country play a key role in either facilitating or hindering international trade. The socio-cultural and religious contexts of a country entail a myriad of factors such as culture, language, religion, values and attitudes. Masovic (2018) affirms that one of the significant components of a business environment is the socio-cultural environment. This chapter acknowledges that the socio-cultural environment of a business or country comprises of a combination of both social and cultural aspects.

### **5.2.1 Factors that promote international trade**

The literature review draws from the broad literature on factors influencing international trade worldwide. Dubravskaa and Siraa (2015) pointed out that political policies and other government matters, such as the relations amongst trading nations, are crucial to the growth of international trade. In this regard, politics also play a central role in international trade. For instance, countries that maintain peaceful environment and pass laws that do not constrain international traders are likely have high chances of experiencing flourishing international trade globally.

Zhou and Zhou (2022) conducted a study to explore how per capita gross domestic product, distance, culture, internet penetration and other factors affect the trade of cultural products in China, Japan and Korea. Evidence from the study results shows that, particularly with regard to China, cultural similarity boosts the volume of trade volume with other countries (Zhou & Zhou, 2022). This finding is in line with assertions made by Masovic (2018) that socio-cultural factors are some of the key factors that significantly impact the economic activity and performance of international businesses. Moreover, socio-cultural factors are beyond the control of foreign subsidiaries' managers.

On top of cultural similarity, individual cultural value dimension differences between countries show mixed results for each country and their directions of trade (Zhou & Zhou, 2022). Familiarity with foreign countries' culture is of paramount importance for international trade since sensitivity of cultural factors tends to increase volume of trade (Karimian, 2007). Apart from culture, religion is one of the factors that promote international trade. Abdullahi, and Zainol (2016) observed that religion is a leading factor that moulds economic consciousness among members of society. Furthermore, adherence to religious teachings and practices, invariably expose individuals to new behavioural patterns which alter their life style in virtually all manners (Nikolova & Simroth, 2013).

Dubravska and Sira (2015) identified exchange rate as an important aspect in international trade and highlight that because currencies fluctuate in price it can often be cheaper to buy goods in one country and sell them in another. World trade has grown rapidly since the breakdown of the Bretton Woods

system of fixed exchange rates in early 1973 (Abrams, 1980). A study conducted by Zhou and Zhou (2022) revealed that China, Japan and Korea's export flows of cultural products to other countries increases when the income level of local people goes lower. This demonstrates that the affinity for cultural products lowers when people's income is low. Dubravskaa and Sira (2015) increased capital flows and reduction of trade barriers by national governments.

### **5.2.2 Factors that hinder International Trade**

The political environment of a country can pose challenges to international trade engagements. For instance, Dubravskaa and Sira (2025) pointed out that political instability, mostly when it leads to violence, can be a major barrier to international trade. Harsh physical environmental factors also pose a challenge to international trade. Ekmekcioglu (2011) states that some agricultural products are difficult to produce in tropical countries, hence supply for those particular agricultural products to the foreign market is improbable. High tariffs on imports and exports tend to negatively affect the volume of international trade. Subsequently, Dubravskaa and Sira (2025) caution that many nations place steep tariffs on exports or imports from certain nations or industries and this hampers international trade. Ekmekcioglu (2011) adds that charging hefty tariffs on goods and services to or from other countries may attract retaliatory action whereby the other countries similarly imposes high tariffs on products and services imported or exported by the country.

Non-membership in regional and international commercial bodies hinders a country's prospects in engaging in international trade and vice-versa. For instance, international trade of the Slovak Republic as a member state oriented primarily on the foreign trade with the EU states is not affected significantly by any trade barriers (Dubravskaa & Sira, 2015). Furthermore, Ekmekcioglu (2011) highlights that different disagreements and misunderstandings have caused fall outs between existing countries in the industry and argues that such fallouts could be minimised if the World Trade Organization (WTO) could be more independent from being controlled by US and European countries. Ezeifekwuaba (2022) observed that a decline in the quality of a country's products or commodities relative to other country's commodities would have a negative implication on the country's balance of trade in goods and services. Lack of advertisement of products in target countries hinders trade since local people will not be able to identify the products (Aghdaie et al., 2012).

Prior research has placed a lot of focus on economic and political and factors that impact on international trade. As such, there is dearth in literature on the socio-cultural and religious factors that influence international trade. This chapter closes this literature gap by painting the socio-cultural and religious contexts of Lesotho, highlighting how these contexts may or may not influence international trade. It is envisaged that this chapter can be the basis for informed discussion as well as providing the impetus for progress towards greater consensus in economic policy making.

## **5.3. Conceptual framework**

This chapter is aligned with the conceptual framework by Trehan and Trehan, (2009) expounds on the various socio-cultural factors that substantially affect the economic activity as well as the performance of foreign businesses. According to this conceptual framework, the socio-cultural factors that affect foreign businesses are culture, religion, language, customer preferences level of education and the attitude of the society towards foreign goods and services. The influence of these socio-cultural factors on the operation of international businesses is concrete and prevalent. This conceptual

framework highlights that international businesses are influenced by different culture at a time. A particular international business shapes its commercial culture based on the cultural variances that occur amid the countries where it runs its businesses (Trehan & Trehan, 2009). In order to carry out many managerial tasks successfully, it is very significant for international business managers to acquire a cross-cultural proficiency. In addition to that, multinational managers should be also proficient in (Cavusgil, Knight et al., 2008).

Culture refers to “shared motives values, beliefs, identities, and interpretations or meaning of significant events that result from common experiences of members of collectives and are transmitted across age generations” (House et al., 2001, 494). This chapter defines culture as cumulative set of learned customs, values, and behaviours of a given society. Cultural product refers to consumer goods that convey ideas, symbols and ways of life, such as books, magazines, multimedia products, software, recordings, films, videos, audio-visual programs, crafts and fashion (Zhou and Zhou, 2022). Therefore, cultural symbols comprise artefacts, language, religious rituals rites of passage and cultural sites. Religion refers to that which people define as extraordinary and inspiring a sense of awe and reverence (Samovar et al., 2013). Thus, religion is a set of beliefs, symbols and practices that are grounded on sacredness. Trehan and Trehan’s (2009) conceptual framework guided the researcher on searching for appropriate documents, crafting of the interview guide, analysing primary data as well as interpreting research findings.

#### **5.4. Methodology**

A qualitative research approach was adopted. Qualitative data was gleaned utilising desk research, which entails a systematic review of documents; and through an empirical study. The following inclusion criteria were employed when selecting documents: peer reviewed journal articles; scientific publications containing key words such as international trade, social context, religious context, language, values, culture; Lesotho; only web search engines and academic databases such as Google Scholar, Scopus, JSTOR and DOAJ were searched. An empirical study will also be conducted using Maseru district as the research site. A non-probability sampling technique called purposive sampling was employed to select ten research participants - six from three institutions of higher education located in Maseru district and four participants from government Ministries and institutions that deal with international trade in Lesotho. Khotari (2004) avers that purposive sampling is whereby the researcher purposively selects items for intensive study, on the principle that the items can be representative of the entire state. In this case, purposive sampling technique was the most appropriate sampling method because it enabled the researcher to come up with a sample comprised of participants who are knowledgeable about the phenomenon under study, which is international trade. The ability to choose an appropriate sampling technique is one way of ensuring valid of results in any research study.

#### **5.5 Findings and discussion**

This section presents and discusses findings on the socio-cultural and religious contexts of Lesotho. The socio-cultural context entails the material culture, non-material culture, artefacts and cultural sites.

##### **5.5.1 Socio-cultural context of Lesotho**

One of the significant components of international trade is the socio-cultural context of a country. The socio-cultural context of any given country is a combination of social and cultural factors that

characterise that particular country. This section discusses the socio-cultural context of Lesotho, focussing on material and non-material culture aspects. First, a clarification of these two concepts is imperative before specifically delving into each one of them in the context of Lesotho.

Culture is the most significant factor in defining a country's socio-cultural context. The various cultural components are also referred to as elements of culture. Basotho have a very rich cultural heritage as the Sesotho culture has diverse elements of culture. In essence, elements of culture arise and are related to norms, values, beliefs and behaviours of members of a given society. Generally, these cultural elements play a central role in all forms of human interactions at various levels including international trade. Although society and culture are not directly included in business operations, they invariably feature as key elements in shaping the manner which multinational companies going about their business dealings, especially the way they are managed Masovic (2018). Culture also influences the type of goods that are prevalently produced in certain countries or societies, which dictate what they are likely to trade with other societies locally or on the international market. The converse is also true, as culture also influences the type of goods that local people will be attracted to buy from other societies or countries.

Sociologists categorise culture into two broad segments; namely: material culture and non-material culture. Material culture refers to physical or tangible objects that are distinctly associated and culturally revered by members of a particular society that serve a specific or a combination of various societal purposes, such as ensuring safety, comfort, identity as well as uplifting pride. Examples of material culture include dwellings, weapons, clothing, tools, jewellery and artefacts. It is worth noting that some of the elements of material culture are a result of adverse weather conditions or dynamic adaptation to physical environments. For instance, the Sesotho blanket (*seana-marena*) is one of the most common Basotho trademarks. The *seana-marena* is mostly linked to the fact that Lesotho is highly prone to weather swings irrespective of seasons, and is characterised by severe and relatively long winter seasons. Thus, the blankets are very critical for cushioning Basotho from both unpredictable weather changes and severe winters where temperature can drop as low down as less than -5°C.

Non-material culture refers to a set of non-tangible elements of culture consisting of the values, beliefs, ideas, social norms and attitudes of a given society by which members of that society are expected to conform. Typical examples of non-material culture include language, religion, customs, laws, lifestyle, knowledge and techniques. Both elements of material culture and elements of non-material culture symbolise the cultural ideas of a given society. Hence, elements of material and non-material culture are intertwined, notwithstanding the fact that the former are physical while the latter are non-physical. For instance, a cultural site is a form of material culture since it comprises of visual and tangible objects, but the concomitant values and beliefs characterising a particular site form part of non-material culture.

#### ***A. Lesotho's material culture***

Lesotho is endowed with various forms of material culture, which gives the country a rich cultural heritage. This section, as noted, paints Lesotho's cultural context by describing the elements of the Sesotho material culture; namely, clothes, food, artefacts and cultural sites.

## **B. Clothes**

This sub-section paints the socio-cultural context of Lesotho, with regard to traditional clothes associated with specific gender, age groups, traditional leaders (chiefs) and herd boys. Clothes worn by members of a particular society; form part of that society's history, culture and heritage. In practice, a society's culture is enforced in social interaction.

### **C. Traditional clothes for women**

Clothes refer to any tangible or material item that covers parts of the human body. In Sesotho, clothes are called *lipahlo*. Teenagers and unmarried women wear a skirt made of cattle skin which is called a *thethana*. Traditionally, a *thethana* must be worn without a pant. However, these days, some women wear it with panties or tights. This illustrates that culture is not static, it is dynamic. A *thethana* is sometimes made of *tsikitlana*. It can be worn with a top which covers breasts (*matsoele*) and a necklace made of beads (*lifaha*). Beads form part of Basotho material culture, either in a necklace form, earrings or hand wrist. Mature Basotho women also wear traditional jewellery to enhance their beauty in a traditional way. There are also items of clothes called a *setea* and *setota* worn by young girls.

The foremost cultural dressing for Basotho women is a dress called *seshoeshoe* also known as *terantala*. It is the most important attire for Basotho women who wear it with pride and dignity. It is mostly worn during important occasions such as, weddings, feasts and funerals. It is often worn with Sesotho blankets of different kinds such as *seana-marena*, *pelo ea Morena*, *lehlaku* and *poone*. The *seshoeshoe* dress forms part of prominent traditional clothes for Basotho females. The *seshoeshoe* is mostly worn by mature Basotho women with teenagers and young girls also wear it. The "Basotho traditional dress as is known today is an adapted dress from the Europeans" (Pheto-Moeti, 2020: 1). Before the interaction of the Basotho with the Dutch Settlers and the European missionaries, that is, during the pre-colonial period, Basotho used to wear traditional clothes made from animal skin and they gradually changed their clothes as they adopted western styles of dressing. The process whereby a society adopts some aspects of a new culture, such as dressing is termed acculturation.

These days, some Basotho women only put on dressing that resemble of the pre-colonial traditional dressing during cultural celebrations. For instance, during such occasions, mature Basotho women (*basali*) wear unique traditional clothes include a dress, made from cowhide, which is called *mose oa khomo* in Sesotho language. This particular attire consists of a top which covers breasts, a skirt which gets up to the knees, and a head scarf which is called *kooane*, which is also made of cowhide. Other notable traditional clothes for mature Basotho women include *lifatla*, *ts'ets'e*, *kobo*, *meqathatso*; and *tjale*. *Meqathatso* are traditional sandals, made of cowhide and *tjale* is a blanket that is worn around the shoulders by women, mostly the mature ones. A Mosotho woman wearing a *tjale* is treated with great respect and in turn it is also viewed as symbol of respect for the occasion. Also, in the modern-day Sotho society, some women wear such original traditional clothes, in combination with modern synthetic cultural clothing. For instance, they can wear a *seshoeshoe* shirt together with a cotton T-shirt or a *seshoeshoe* top with a jean skirt. Dress is a non-verbal element of cultural communication (Wass & Eicher, 1980: 320), thus, the way members of a society dress sheds light on the society's social norms, mores and values.



#### **D. Traditional clothes for Basotho men**

In Lesotho, young men are called *bashanyana*. Some of the traditional clothing items that are specifically for Basotho young men (*bashanyana*) include *ts'ea*, *leqapha*, *leqhoele*, *mokhahla* and *sepetja* (worn on the wrist). *Leqapha* is a modern traditional cloth item.

Traditionally, mature Basotho men (*banna* or *bo ntate*) are known for wearing blankets. First, there is a type of blanket crafted from cowhide that is draped over the shoulders, commonly known as a "big cat" due to its jackal hides material. In addition to this, traditional Basotho blankets (*kobo*) include the *letaata*, crafted from sheep and goat skins, as well as the *mokhahla*, crafted from cowhide. Among these options, the *seana-marena* and *lefitori* blankets are particularly favoured by men, with the latter deriving its name from the English word victory. The *seana-marena* blanket worn by men, particularly married men and mature unmarried men. The *lefitori* blanket is worn by both men and boys.

There is also the *lilala* blanket, which is worn boys who have not reached teenage. Furthermore, traditional clothes for Basotho men include a *tsoape*, which covers the front part of the lower loins. Similar to the *tsoape* is the *ts'ea*, which is worn by boys or unmarried men. A *ts'ea* looks like an underwear. There is also a *setsiba* for married man, which covers the buttocks and front part. Two of these pieces of men's clothes are worn without tops. Other pieces of clothes for men include, *lifatla*, *moliopo* (another type of *tsea* made from animal skin), *lekupana* (animal skin blanket that has been cut), *sepetja* (hand decoration), *tsetše* and *semeremere*. Other pieces of clothes for men include *letata*, *lifatla*, *moliopo*, *sepetja*, *ts'ets'e* and *semeremere*.

Men also wear *kuoane*, which is a string made of a jackal's skin. There is a hut-shaped Sesotho hat called *mokorotlo*, and the name of the hat is also derived from its shape. The hut-shape also resemblances one of the country's prominent mountain called Qiloane. This mountain is close to close to the more famous Thaba Bosiu mountain, the birthplace of the highly revered King Mosheshoe 1, the founder of the Basotho nation. Other hats normally worn by Basotho men include *kuoane* and *mosetla*. Men also wear a *tsetse* hat, which has a brim and is made from grass material. These hats are hand-made and their manufacturing is viewed as a form of Sesotho craftsmanship that is passed on from generations to generations. Other men's clothing items are the *khobo ea tokoa leboli* and *lifatla*. The *lifatla*, are men's sandals, which are made of a cow's forehead hide.

#### **E. Clothes for chiefs and herd boys**

There are also clothes that are specifically worn by Basotho chiefs. Such clothes include *molia-nyee*, *kuoane* and *lehlosi*. Incidentally, unlike most African countries, or Southern African countries in particular, Lesotho is one of the few countries where females can hold chieftainship positions just as their male counterparts. This is very commendable from a gender equality point of view. Pastoral farming is one of the major farming activities in Lesotho. The shepherds are very important group in Lesotho's socio-economic matrix. In fact, shepherding is regarded as a critical form of employment in Lesotho. It is considered as men's job and it is mainly for men who are relatively young (in their thirties and below). The herd boys spend weeks on end, away from their homes, looking after the domestic animals (cattle, sheep and goats) in the rangelands. The rangelands are largely located in the more rugged and mountainous parts of the country, where crop farming is very limited and villages are very sparsely distributed. In Sesotho, these men are called *balisana* and there are various clothing items such as a blanket (*kobo e thokoa*), gumboots (*tlake*), socks (*likaose*), *ts'ets'e*,

*mokorotlo* and a woollen hat called *baretlaba*, that are ordinarily worn by herd boys. Suffice to say, most of these clothing items clearly reflect the severe weather conditions of their work environment (which is colloquially referred to as “The Mountains”). The mountains are prone to much more erratic weather swings and more intense winters with heavy snow relative to the rest of the country. Shepherds also carry weapons such as *molamu*.

## **F. Food**

There are various types of food that resonates with the Basotho culture and some can be consumed any time while some are more preferred at specific times of the day. One of the common foodstuffs eaten in the morning is a Sesotho porridge called *lesheshele*, which is prepared from sorghum (*mabele*). Another popular morning food is *motoho* is a Sesotho drink made of *mabele* as well. *Motoho* can also be taken any time of the day. *Bohobe* is Sesotho bread made from wheat flour (*koro*). Sesotho bread made from corn flour is called *mocha-hlana*. Both of them are commonly eaten in the morning.

Similar to other Southern African countries, Lesotho’s staple food is dominated by pap (*papa*) which is cooked using maize-meal. It is cooked to a thick, porridge-like consistency and is typically served with various relishes inclusive of vegetables and beans. It can be eaten with meat. Examples of Sesotho vegetables (*moroho*) are *thepe*, *nyekeo*, pumpkin leaves, *seruoe*, *papasane*, *tenane*, *leshoabe* and *semetsing*. Study participants highlighted that these vegetables are nutritious and healthy. Pumpkin leaves (*lihaba*) can be cooked with small green pumpkins (*mabolotsana*) as a relish called *lepu*, to be eaten with pap. The other traditional food is *maleo*, which are the insides of a sheep or goat, which can be eaten with *papa* or on its own. *Maleo* is cooked in a small pot called ‘*malikotoana*, immediately after the animal is slaughtered. It is mostly eaten by men since they are the ones who will have slaughtered the animal. *Likhobe* could be *qhubu*, which is plain boiled corn, beans, peas and or *nyekoe* (mixture of beans and sorghum) as well as *nyakafatane* (is made from boiling sorghum with beans and peeled pieces of pumpkin until it is watery). The other traditional foods include *mokopu* and *mocha-hlama*. Some Basotho pointed out that it is a delicacy that can be taken anytime.

There is also *motoho*, which is fermented *lesheleshele*. *Lipabi* is traditional food that is in powder form. It is made through roasting maize, grind it and mix it with sugar. Pumpkin seeds are also roasted and eaten on their own and they can also be roasted and eaten with as relish with pap. There is also *likhetšo*, which is pumpkin cooked without peeling it and marinate with sugar and a little bit of salt. With regard to fruits, Basotho always have the following fruits within their yards: peaches, apricots, *monakali*, *monokots’oai*, *ponapona*. Basotho also have food that they eat as snacks (*lijo tse hlabosang* *lijo tse hlabosang mathe*) and these include dried peaches (*mangangajane*) eaten throughout the year as well as *machechisa* which is roasted corn seeds. Maize is eaten in various forms, such as roasted corn on the cob (*poone*), *sebera* (cooked corn seeds seasoned with salt), and *machechisa*. There is also Sesotho traditional beer called *Sesotho* or *joala ba Sesotho* and *hopose*, which is brewed using *mabele*.

## **G. Cultural artefacts**

A *lekokotlelo* is a stick which assists elderly men to walk easily. There are weapons such as a knobkerrie (*kotjane*) and *koto* that are usually thrown at what is being fought. Basotho men also use stick-fighting weapons such as *molamu oa lebetlela*, *molamu oa hlathe* and *molamu oa koepere*. One of the cultural artefacts is a shield, which is called a *thebe* in Sesotho. The *kotjane* and *molamu* are

also carried by male initiation school graduates. These boys hold the *kotjane* facing upwards and the *kochane* is not supposed to face upwards.

Some of the artefacts are Sesotho traditional cooking utensils include a three-legged pot called a *malikotoane*, and a cooking stick called a *lesokoana*. Other cultural artefacts include utensils and items used within the home (*lisebelisuo tsa lapeng*). These items include *lefielo*, *motlhotlo*, *malikotoana letata*, *mohope*, *lefisoana*, *seroto*, *leloala le tsiloana* and *moseme*. There also garden tools such as *lefehlo*, *mohoma*, *kharafu*, *foko* and *selepe*. Musical instruments form part of the material culture and for Basotho they play music with instruments such as *sekhankula/mamokhorong*, *lekolulo*, *sekupe*, *moropa*, *lesiba*, *korianna*.

## ***H. Cultural Sites***

Cultural sites are part of a society's material culture. Lesotho boasts of a wealth of cultural sites and historic sites serve as tourism attraction sites. These sites form the cultural heritage of Lesotho.

Of great importance is the Thaba-bosiu, which is a UNESCO World Heritage site, which is located in Maseru district. Thaba-bosiu holds an enormous cultural significance as the birthplace of the Basotho nation. This cultural site is a sandstone plateau which once served as a stronghold for King Moshoshoe I and his subjects. At this place, there is the Thaba-Bosiu cultural village with cultural huts, and rondavels and artefacts which depict Sesotho ancient traditions. Moshoeshoe I's statue is located at this cultural village too. This place is a few metres away from King Moshoeshoe I's grave. The Ha Baroana site in Maseru district boasts of ancient cave paintings. Apart from that, Morija is a historic area that is often referred to as the cultural and intellectual capital of Lesotho. At Morija, there is the Morija Museum and Archives and Morija Arts Centre. Annually, Lesotho hosts the Morija Arts and Cultural Festival in Morija, where people showcase local art, crafts, dance and music. Morija Museum is located in Maseru district.

The Ha Kome Cave Dwellings are found at Teyateyaneng in Berea district. These unique cave dwellings are carved into the sandstone cliffs and offer a glimpse into the traditional way of life of the Basotho people. Furthermore, the Ha Khabo Village is located in Berea Located in the Berea district. Ha Khabo is known for its ancient and remarkable rock art. Mafeteng town is known for its traditional Basotho architecture, with many huts and rondavels. There are local craft markets where traditional Basotho crafts such as blankets, pottery, and baskets are sold. Semonkong is famous for its stunning Maletsunyane Falls and it is located in Maseru district. These Falls are located within a rural area which is known for pony trekking. Butha-Buthe district is well known for its unique traditional villages and local festivals. Lastly, Quthing district is home to the Dinosaur Footprints, which are of archaeological interest. There is also the Quthing Mission Museum, which is known for the preservation of Sesotho culture.

## ***A section on non-material cultural***

A society's values, social norms and beliefs are embedded in common practices, sayings, idioms, figures of speech, fairy stories. This sub-section looks at some of the Basotho's values, social norms and beliefs that are depicted in Sesotho practices and proverbs. Most of the material in this section is based on the data collected from the empirical study and a few from the researcher's observations.

## ***Sesotho social norms***

Sesotho sayings illustrate Basotho social norms and values. For instance, the saying *hotla loka* depicts social norms regarding patience, resilience, faith and hope. The other social norms relating to men are that men should take off his hats inside the house or any building and a man should stand when shaking hands with others.

Some of the social norms are depicted through colours. For instance, the colour worn at funerals is black or any dark coloured clothes. Contrary to the Batswana who wear their traditional attire during funerals, most Basotho wear black. Most of the Basotho prefer wearing *seshoeshoe* attire on happy occasions. Before, the Covid-19 pandemic, respect was shown through hand-shakes, especially among close relatives. The phasing out of handshakes illustrates that culture is dynamic it changes due to changes brought by the social and physical environment.

Since the Basotho society is a patriarchal one, it is the norm that women respect men. Basotho woman should face down when talking to men, especially their husbands, fathers and fathers-in-law. At funerals, all women are expected to cover their heads with scarfs or hats as a sign of respect. Failure to do so is a sign of disrespect. Women also cover their shoulders with a shawl at funerals. A woman cannot sit on a chair while a man is standing; she has to give the seat to a man. Men are the ones who are fed first, at home and at functions or feasts. Furthermore, women are not expected to fall pregnant before marriage. Getting pregnant before marriage is shunned upon, it is an embarrassment to the family. The Sesotho sayings “*o robeile lengoele*” and *ngoanana eo o senyehile* are used when a girl gets pregnant before marriage. The sayings illustrate that getting pregnant before marriage is a taboo in Lesotho. Brideprice is valued in Sesotho culture and it is paid in the form of cattle, horses, donkeys, mules, sheep or goats. Brideprice is paid used any four-legged animal domestic animals except dogs, cats and pigs. Cash can also be used to the equivalence of the value of the animals charged. Music play is an element of Sesotho non-material culture. Some of the Sesotho songs transmit Basotho social norms and values. For instance, the song *Hoja ke ne ke tseba aterese ea Morena Moshoeshoe* which stresses the issue about peace and the song *Basotho kopanang, le be ntho e le nngoe* which emphasises unity.

## ***Sesotho Values***

Basotho value greetings, with age playing a central role, since the young ones greet the elderly. Greeting someone is a sign of respect. They use the word *lumela* when greeting each other. For instance, *lumela Mme*, when greeting a female and *lumela ntate*, when greeting a male figure. Sometimes Basotho respond to a greeting by saying *khotso*, which is a way of perpetually transmitting the value of peace among Basotho on a daily basis. According to Sesotho culture, a person who enters a room greets the ones already in the room and it is also viewed as a sign of respect.

The Sesotho saying “*ntja peli ha e hloloe ke sebata*” is similar to the African proverb “if you want to go fast go alone but if you want to go far go together” which illustrates that Basotho value partnerships. With the saying “*ha ha bo boi ha ho lluo*” Basotho transmit the social norm on bravery, highlighting that there are no tears for a family of cowards. Some of the sayings reveal how the Basotho society reveres women. For instance the saying “*basali ke tau li mesana*” highlights that women are like lions, even if they may be seem weak, they are very strong. *Mosali o ts’ora thipa ka bohaleng* reveals that women are strong and they are characterised by perseverance and tenacity. Study participants highlighted that Basotho women are more tenacious than men.

Basotho value peace and this is attributed to the founder of the Basotho society, Moshoeshoe I. Also, one of the symbols of the coat of arms is *Khotso* which means peace. Furthermore, the Lesotho flag has a white colour which symbolises peace. The *mokorotlo* in the middle of white illustrates with black symbolising a black Africa nation. Furthermore, Basotho value clans and each clan is symbolised by a specific animal. Pheto-Moeti (2020) highlights that the Basotho nation comprises groups of people that observe a common ancestry and venerates a specific animal totem according to clans. The clan affiliations are inherited in a patriarchal manner. A *Mokoena* father gives birth to *Bakoena* children irrespective of the wife's clan. The clans have ritual and political significance. Basotho's biggest indicator of wealth is livestock ownership and investment in livestock entails hard work, dedication and perseverance since livestock farming is affected by drought, floods and diseases that threaten the output. Thus, some Basotho prefer storing wealth in the form of domestic animals as compared to cash. Mokheithi et. al. (2015) highlight that Lesotho is a net exporter of wool and mohair, exporting mostly to South Africa and China. Domestic animals kept by Basotho are cattle, sheep, goats, horses and donkeys. Some Basotho earn a living through selling wool and mohair from sheep. Horses are used as a form of transport in rugged terrains which are inaccessible by car. Donkeys are used to carry heavy loads.

### ***Sesotho Beliefs***

With regard to colours, Basotho believe that the blue colour represents the sky and the rain (*pula*). The colour green (*tala*) symbolises prosperity, land, agricultural wealth and natural resources of Lesotho. White stands for peace. These three colours informed the Lesotho flag and the words *khotso*, *pula* and *nala* are found on the Lesotho coat of arms. Black colour (*botšo* or *ntšo*) signifies mourning (*bofifi*) or misfortune (*sesila*). Red (*bofubelu*) implies danger (*kotsi*) or blood (*mali*). With regard to numbers, one is a number which signifies death (*lefu*), two is a number that signifies happiness (*thabo*) in Sesotho Six is a number that is associated with the six cows that are paid for damages, when a man impregnates a woman but fails to marry her (*khomo tse patalang ts'enyō*). The number seven is associated with calamity. With regard to wealth, some Basotho believe in working hard to earn a decent living and to amass wealth.

Basotho believe that a marriage is not between two individuals but between two families. On the marriage day, a sheep is slaughtered, to seal the relationship between the two families. They believe that the first blood that drops on the soil tie the two families together and they further believe that what will be tied on that day will never be revoked. This belief is grounded in the role of ancestors in that it is believed that when the first drop gets into contact with the soil, simultaneously the dead relatives of both families unite with the living members of the two families as well as tying the couple together forever. The knot is said to be irrevocable. When paying brideprice, it is forbidden to pay seven cows because in Sesotho culture seven is a number that is associated with misfortune. There is a saying in Sesotho regarding the number seven with regard to brideprice. Paying seven cows implies that the son-in-law is pointing the in-laws with the finger (*o supa mohoehali*). Furthermore, women are not expected to arrange brideprice negotiations, they prepare food for family members and visitors. Basotho houses used to face East, based on the belief that a new day brings change and blessings.

## 5.6. Religious context of Lesotho

Lesotho is predominantly a Christian country. There are the Orthodox, which consists of the Anglicans, Catholics and the Parish Evangelical Mission Society (the three Orthodox Church in Lesotho). The most dominant Christian denomination in Lesotho is the Roman Catholic Church. Even though Basotho are a predominantly Christian society, there is also ancestral worship whereby people worship their ancestors. In Lesotho there are traditional healers (*sangomas*) who worship ancestors. Pentecostals believe more in the power of the Holy Spirit and they do not mix Christianity and ancestral worship. Religion also shaped politics of Lesotho. For instance, if one looks at the Nationalists in Lesotho, they all come from Roman Catholics and these are parties such as BNP. Roman Catholics are conservatives and the dominant parties are congress parties such as LCD, DC, BCP, which are from the PEEMS.

To show that Basotho are a religious people, in the ancient era they had their ways of praying for rain. Basotho men and boys, they used to go to the mountains and sing a Sesotho song called “*Mokorotlo*” which is considered a prayer for rain in Basotho culture. Another distinctive activity which was performed by men in order to pray for rain was “*Molutsoane*”. Unlike “*Mokorotlo*”, this activity involved men, boys and women. Females, especially girls had their way of performing the same activity to pray for rain through a game called “*Lesokoana*” which entailed stealing a cooking stick (*lesokoana*).

## 5.7. Implications of Socio-Cultural Context on International Trade

The socio-cultural context of Lesotho has numerous positive implications on international trade, as highlighted below.

### *Language*

Linguistically, Lesotho is a homogenous bilingual country whereby Sesotho and English are the only languages that are universally spoken across the country. The two are the official languages and English is the designated medium of instruction in the country’s education system. All indigenous Basotho speak Sesotho, while at least 85% of the country’s population is literate hence conversant with the English language. English is a widely spoken language across the world; in fact, English is one of the official languages in twenty-four (24) out of fifty-four (54) African countries (44.4%). About 1.8 billion people speak English worldwide, either natively or as a second language, since it is highly valued as a necessity for international communication and better opportunities in education and employment (Corradi, 2017). Lesotho’s is one of the country with a unique socio-economic characteristic whereby the literacy rate is high (85%), particularly for women (BOS, 2018), hence English-speaking is not a foreign issue.

The ability of Basotho to speak in English has positive implications on international trade. Firstly, the fact that majority of Basotho are capable of speaking in English makes trading with Basotho nationals easy because international investors will not grapple with learning many different languages. The processing of documentations relating to importation of goods/service into Lesotho would not require translation of such documents into many languages apart from English; and no translation would be required for those countries that use English as an official language. This makes international trading between Lesotho and other countries relatively easy. In situations that any

documents have to be translated or written in all official languages of the country, then in the case of Lesotho they only have to be presented in two languages – Sesotho and English. Sesotho is also widely spoken in South Africa (SA), where the number of native Sesotho speakers is estimated at about 4.6 million people; and it is also very similar (or closely related) to Setswana a native language of Batswana people of Botswana.

Furthermore, as one of the Bantu languages, Sesotho is closely linked to various other Bantu languages that are spoken by most of the indigenous people in Central and Southern Africa. Thus, Sesotho can easily be learnt and understood by many indigenous people in the Sub-Saharan region, while Basotho can also learn other regional languages with relative ease. In fact, Lesotho shares various cultural aspects with most of the Bantu groupings in the region, which greatly facilitates trade between Lesotho and those African countries. The linguistic and other cultural connectivity between Lesotho and SA are extremely vital since Lesotho is an enclave of SA. The longest stretch of Lesotho border is between Free State province and Lesotho, which is a predominantly Sotho speaking province. Hence, trade between Basotho people in both countries is very easy since these people share the same culture and they speak the same language. Any business transactions (trade in products and services) between Basotho in Lesotho and SA do not necessarily require the use of English Language as they both speak Sesotho. Also, the use of only two languages makes it easy when investors label goods to be sold in Lesotho. Additionally, communication between Basotho at various levels, such as government ministries and border officials, and international traders is relatively easy.

The use of Sesotho and English has positive implications on the goods that can be exported to other countries or imported into Lesotho. Prospective buyers ought to be in a position to read and understand any written instructions (data sheets) accompanying or attached to any merchandise. Thus, any goods that are labelled in English and/or Sesotho are more likely to appeal to Basotho people compared to those that are labelled in any other foreign languages. Basotho international traders also use English language to label their goods that they can sell to the vast English-speaking countries.

### ***Clothes***

An informed understanding of the country's culture can be very helpful in guiding international investors regarding the nature and types of products and services that may cut a niche in the Lesotho market. For instance, when designing something as simple as T-shirts to sell in Lesotho, international investors could find that Basotho's material culture, which include Sesotho blankets and *thethana*, are significant or even major selling points. Notably, in as much as Basotho embrace modernity, they are still very culturally oriented and they are extremely proud of their socio-cultural identity. Among other indicators, Basotho's cultural loyalty is also amply demonstrated in their material culture, which includes a national dress - specific attires that are worn on any importance occasions of the country, such as King's birthday, Independence Day, and Moshoeshoe day. Such attire includes *seshoeshoe* dress and *Sesotho* blanket. Even though they represent Sesotho culture, both *seshoeshoe* dress and Sesotho blanket are made of imported cotton material – and Lesotho does not manufacture such material. So this illustrates a gap in the market for people who value tradition but do not have the local materials. Currently, the material is imported from South Africa.

Some of the materials that are used, by Basotho, to make some of their cultural dresses and artefacts are not locally available. Such embracing of foreign material for the cultural identity illustrates that Sesotho culture is dynamic and it embraces global influences and modernity. Lesotho imports the

traditional dress material and this is a form of international trade. It also implies that there is potential for *seshoeshoe* dress to create its own unique market elsewhere, particularly in those countries where the original materials come from. The citizens of those countries that export the original materials are already familiar with the clothing material. Thus, if the material from other countries returns to these countries with a Sesotho flavour in terms of product design, then it is likely to lead to the creation of an export market for Basotho.

Some material colours also have cultural significance to Basotho people. For instance, black colour is associated with bad luck and misfortune; and black attire is worn during bereavement, symbolising mourning. This implication of this information to international trade is that foreign traders have a ready market for goods such as black suits, dresses, scarfs, jerseys, blouses, skirts pantyhose, socks, shawls, hats, shoes, handbags and sunglasses. International traders can also use the *seshoeshoe* material to design modern items with a traditional flavour, such as shoes, hats, purses, T-shirts and satchels.

### **Artefacts**

As earlier highlighted, Basotho are very culturally oriented and amongst many others other one of their prominent cultural beliefs is totemism. Basotho people place great value on totems and they exhibit great pride in their totems. In this regard, anything that depicts individuals' totems has a high chance of appealing to them; thus, foreign investors can tap into that socio-cultural attribute. Furthermore, totemism is not confined to Lesotho; it is widespread in African socio-cultural attribute. This means Basotho can sell also some totemic-flavoured products in other countries which share similar values and engage in international trade. By and large, the fact that people of African origin are very much into totemism creates a gap in the market, particularly for artefacts that are inclined to totems. Thus, there is a market for artefacts that represent the various totems in Lesotho.

Based on the knowledge of the socio-cultural context of Lesotho, international traders can have some insights on which products to take to the Lesotho domestic market. For instance, they can print T-Shirts, hats and clothing material which dawn the pictures of the various clan symbols, cultural sites, material culture artefacts and Sesotho words which amplify Basotho values such as *pula*, *nala* and *khotso*. On the other hand, Basotho can also produce these same products and sell them in foreign countries. Products with cultural flavour can be appealing as imports and/or exports.

### **Values and social norms**

Basotho attach high respect to age, which reflects in scenarios such as the exchange of greetings between the young and their elders and the way in which the young communicate disagreements with elders. It is widely acknowledged that, any respectful Mosotho person would normally not openly disagree with a person s/he views or knows to be older than his/her age group. They would rather pretend to agree with an elder person as open disagreement is viewed as insulting an elder person. In Lesotho, such pretence is considered to be a sign of respect to elders, rather than deliberate misleading of the elder person. An understanding and appreciation of such cultural norms and behaviours is critical when engaging Basotho in international trade discussions. The highlighted cultural behaviour inhibits Basotho people from being open under certain circumstances, which some non-Basotho people may view as sheer dishonest as they would expect a more forthright discussion. Therefore, this cultural aspect can potentially have negative implications to international trade engagements. These are some of the socio-cultural issues to consider during business negotiations. Basotho need to understand and appreciate the fact that such cultural norms may not reflect well on the international



trade arena and take all the necessary steps to counter that. On the other hand, any potential foreign investors also need to be vigilant and ensure that the impacts of such cultural values do not militate against any economically sound business transactions. It can be highlighted that, when making or negotiating trade transactions one ought to understand that the age of a business partner does matter.

Most participants, in the empirical research that partially informed this chapter, highlighted that once Basotho put a price on their goods or services they do not budge (or they do not leave much room for negotiations). In essence, Basotho trust that when one puts a price tag, s/he would have taken into consideration most of the pertinent price determinants, thus they are not amenable to lengthy discussions regarding pricing of goods and service – that applies whether they are buying or selling. Hence, when trading with Basotho, it is important to understand that they offered a very limited room for negotiations, if any. Ordinarily, they expect you to take or leave it. Similarly, if they view your price as too high, they would just leave. It is critical for prospective international partners to take into consideration this Basotho cultural behaviour. However, this cultural aspect could have negative implications to international business as it might impede successful conclusion of some potentially viable partnerships. A shift is needed since business is largely about negotiating as, in many instances, each part tries to negotiate the best out of any business transaction.

### ***Beliefs***

There are also some cultural beliefs that are very unique to Basotho that may also have a bearing in goods trading in Lesotho. For instance, Basotho strongly believe that the number seven is associated with misfortune and it is avoided in many instances. Thus, international traders may need to avoid this number on their designs that are meant for the Lesotho markets. Any designs with the number seven are likely to scare off prospective Basotho customers.

Basotho also believe in slaughtering of sheep during marriage celebrations, whose blood they believe will permanently cement the marriage between couples such that the two never divorce in their lifetime. Thus, a sheep is a highly symbolic animal in Sesotho culture; and this may offer a good opportunity to international traders sell products that involve sheep in their designs. Research participants also highlighted that most Basotho believe that most foreign products are prestigious and durable. Furthermore, buying items such as utensils and clothes, made from other countries, is associated with affluence. Such beliefs facilitate international trade they heighten affinity for foreign goods.

### ***Tourism***

The socio-cultural context of Lesotho presents a number of positive implications for international trade. Lesotho's rich cultural heritage presents diverse options to international tourists in terms of sites of tourist attraction and unique artefacts. Lesotho has a very beautiful unique topography with tourist sites that have great potential to attract international tourists for site seeing, which may also be accompanied by buying of cultural artefacts as souvenirs. Thus, the positive implications of tourism are not necessarily confined to the viewing of cultural sites but also cultural artefacts can be traded to the tourists. Thus, tourists can buy a diverse range of souvenirs which they will take to their countries upon their departure. Arguably, for Basotho to fully exploit their cultural sites and artefacts, there need to be some aggressive marketing strategies.

### ***Implications of religious context on international trade***

The religious context of Lesotho has various positive implications on international trade. For instance, religious homogeneity means that there is stability in Lesotho in terms of government policies and even in terms of peace and tranquillity. High diversity in terms of religion tends to brew instability in country ranging from huge shifts in policy and legislation whenever a new government, with a different religious inclination, takes over from its predecessor to religion driven conflicts. There are many conflicts across the world now, which are generally presented as religion driven, hence the power of religion in igniting or fuelling conflict cannot be ignore. In many instances, swift paradigm shifts in social and economic policies, especially if they happen frequently, to international trade. Long term socio-economic stability creates a more conducive environment for International trade. Instability brings about abrupt changes in social, economic and political polies which leave local and international traders vulnerable to all the negative impacts associated with such instabilities. The issue of stability is very important because it fashions a favourable environment for international trade.

Lesotho's religious homogeneity is a very positive factor that can be used by some government Ministries to attract international traders. For instance, Ministry of Trade, Industry, Business Development and Tourism kind of products can investors bring to Lesotho since Lesotho is a predominantly a Christian society. This means that any products that do not clash with Christian religion are sellable in Lesotho. It also gives international traders a picture on which food stuffs, clothes, artefacts and services that are sellable in Lesotho.

Due to religious homogeneity, international traders ought to understand that there is a huge customer base for products and services that appeal to Christian religion since the population is comprised of mainly Christians. On the other hand, any international trader who deals in products or services that appeal to other types of religions, such as Muslim and Hindu, have a very tiny customer base in the country.

## **5.8. Conclusion**

The cultural context provides valuable information for international traders to get insights into Basotho socio-cultural environment (including norms, values, beliefs and behave), which in turn may provide critical insights into how they are likely to perceive particular issues, behaviours, communication style, products and services. Thus, shedding some light on how Basotho are likely to conduct international trade. International traders requires a significant knowledge and understanding of each other's predominant attitudes, values, and beliefs so that each part is able to anticipate certain type(s) of behaviours from the other part and have some capacity interpret the behaviour in a correct. A misinterpreted behaviour might derail potentially lucrative trading deal that would otherwise benefit both parties. Therefore, this sort of knowledge is crucial as it may guide prospecting and even existing international traders on how best to conduct themselves when trading or negotiating trading partnerships with Basotho people.

The socio-cultural context of Lesotho entails material and non-material culture. Lesotho has a rich cultural heritage which entails elements of culture such as the *seshoeshoe* dress, *seana-marena* blanket, artefacts and cultural sites. These symbols of Sesotho culture have numerous implications on trade. For instance, they can be incorporated in designs of clothing items - T-shirts, caps, tea and mugs - that might find a good among Basotho or find sizeable markets foreign tourists coming into the country or even find market foreign countries, thus boosting international trade of the country. Arguably, trading in cultural products requires expertise in designing and producing competitive products that are sellable in foreign markets and also penetrating and creating new markets.

International trade in cultural products is greatly facilitated by similarities in culture. For instance, countries whose spoken language is more likely to stand a better chance of engaging in international trade with each other in cultural and other products.

Trading in very similar ethnic groups, who otherwise just find themselves in two different countries by virtue of official arbitrary boundaries, such as the Basotho people of South Africa, who predominantly occupy the Free State province and Basotho people of Lesotho is even much easier since they share same original culture. International trade is not only confined to cultural products but to cultural services as well. It is envisaged that this chapter sheds some light into the Lesotho socio-cultural context that will assist both Basotho and any foreigners in search of information relating to socio-cultural aspects of Lesotho how they may create opportunities for or impede International Trade. The chapter may also contribute by providing the impetus for advancement towards greater consensus in economic policies, including international trade policy.

## 5.9. Recommendations

Flowing from the preceding discussion, the following recommendations are proffered:

- Government of Lesotho ought to embrace international trade in cultural products and services as a poverty reduction strategy. This includes identification of potential international markets and facilitating the entry of its citizens into such markets.
- Basotho ought to embark on an aggressive marketing strategy mainly in niche markets, in line with the cultural tastes of the target markets.
- In order to fully exploit Lesotho's cultural sites and artefacts:
- There is need to verify the origins of cultural artefacts to avoid illegal trade in of artefacts
- There is need for Lesotho to establish a Cultural Products Trade Centre (CPTC), which conducts empirical research on, among other things, international markets, improvement of cultural products designs, and product competitiveness on the international trade market.
- There is need for export promotion policies that focus on strengthening exporting capacities for individuals, cooperatives and small to medium enterprises that prioritise and focus on cultural products and culture-related services including tourism.
- Lesotho should strive to maintain a stable economic and political environment required, which is a key factor in promoting international trade for any country.
- Government to facilitate the participation of Basotho producers of cultural products in international cultural heritage fairs in to identify potential buyers of cultural products and services

## References

- Abdullahi, A. I. & Zainol, F. A. (2016). The Impact of Socio-cultural Business Environment on Entrepreneurial Intention: A conceptual approach. *International Journal of Academic Research in Business and Social Sciences*, 6(2), 80-94.
- Aghdaie, S.F.A., Seidi, M., & Riasi, A. (2012). Identifying the Barriers to Iran's Saffron Export by Using Porter's Diamond Model. *International Journal of Marketing Studies*, 4(5), 129-138.
- Bureau of Statistics. (2016). *National Population and Household Census Report*. Maseru: Bureau of Statistics.
- Cavusgil, S.T., Knight, G., Riesenberger, J.R., Rammal, H.G., Rose, E.L. (2015). *International Business*, Pearson Australia, Melbourne, p. 108;

- Dubravskaa, M. & Siraa, E. (2025). The Analysis of The Factors Influencing The International Trade of the Slovak Republic, *Procedia Economics and Finance* 23(2015), 1210 – 1216.
- Ekmekcioglu, E. (2011). The Benefits and Problems of International Trade in the Context of Global Crisis. *International Conference on Eurasian Economies, SESSION 3A: International Trade*, Kyrgyzstan-Turkey Manas University, Kyrgyzstan, 192-196.
- Ezeifekwuaba, T. B. (2022). Factors Affecting International Trade Activity in Less Developed Nations: Nigeria as a Case Study. *Science Research*. 10(3) pp. 69-80. doi: 10.11648/j.sr.20221003.13
- Hapazari, J. (2019). Challenges faced by unemployed people in Lesotho: A case of Manonyane rural community. *South African Review of Sociology*. 50(1): 65-82.
- House, R., Javidan, M., & Dorfman, P. (2001). Project Globe: An Introduction. *Applied Psychology: An International Review*, 50, 489-505.
- IFAD. (2003). *Enabling poor rural people to overcome poverty in Lesotho*. Rome: IFAD.
- Jeppesen, S., & Bezuidenhout, A. (2019). *Lesotho: The Garment Industry in its Economic, Political and Social Context*. Centre for Business and Development Studies. CBDS Working Paper No. 2019/3.
- Lesotho Bureau of Statistics. (2018). *Gender Status Booklet - Bureau of Statistics*. Maseru: Lesotho Bureau of Statistics.
- Masovic, A. (2018). Socio-cultural factors and their impact on the performance of multinational companies, *Ecoforum*, 7(14), 1-6.
- Mokhethi, N. I., Bahta, Y. T. & Ogundej, A.A. (2015). Trade structure and pattern of wool and mohair export of Lesotho. 20th International Farm Management Congress, Laval University, Québec City, Québec, Canada, pp 312-319.
- Pheto-Moeti, B. (2020). The meaning and symbolism of cultural dress practices in Lesotho. PhD dissertation, University of Free State, South Africa.
- Samovar, L.A., Porter, E.P. McDaniel, E.R. & Roy, C.S. (2013). *Communication between Cultures*. 8th Edition. Boston: Cengage Learning.
- Sinamai, A., Odiaua, I., Katsamudanga, S., and Ndlovu, N. (2017). Applied Methods for Upgrading Documentation of Immovable Heritage in Lesotho. *Journal of African Cultural Heritage Studies*, 1, 1-32, <http://doi.10.22599/jachs.12>
- Trehan, M. & Trehan, R. (2009). *Government and Business*. V. K. Enterprises. UNDP. (2022). *UNDP Annual Report*. Maseru: UNDP Lesotho.
- World Bank, 2023 World Bank. (2023). *Lesotho Trade*. <https://wits.worldbank.org/CountrySnapshot/en/LSO>.
- World Bank. (2022). *Transforming Lesotho's Farmers into Entrepreneurs*. <https://www.worldbank.org/en/news/feature/2022/10/13/transforming-lesotho-s-farmers-into-entrepreneurs>
- WTO. (2023). The WTO. [https://www.wto.org/english/thewto\\_e/thewto\\_e.htm](https://www.wto.org/english/thewto_e/thewto_e.htm)
- Zhou, J. & Zhou, Z. (2022). The influences of cultural values on the cultural product trade: evidence from China, Japan and Korea. *Nankai Business Review International*, 13(2), 201-219.

## **CHAPTER SIX**

### **AGRICULTURAL SECTOR AND INTERNATIONAL TRADE IN LESOTHO**

**Brian Muroyiwa**

Department of Agricultural Economics and Extension, National University of Lesotho

Email: [bmuroyiwa@gmail.com](mailto:bmuroyiwa@gmail.com)

**Puleng Letuma**

Department of Crop Services National, University of Lesotho

Email: [pulengletuma@yahoo.com](mailto:pulengletuma@yahoo.com)

**&**

**Malefetsane Ratsoane**

Department of Agricultural Research, Ministry of Agriculture and Food Security

Email: [ratsoanem@gmail.com](mailto:ratsoanem@gmail.com)

## 6.1 Introduction

Lesotho is a middle-income country with the majority of rural population depending largely on agricultural activities and other natural resources for their livelihoods. Lesotho has acknowledged the role of the agriculture sector for its involvement to economic growth and poverty reduction as indicated in the country's National Strategic Development Vision 2020 (Annual trends and report 2016). Lesotho is a poor, small, mountainous country of about two million (predominantly rural) people. The country is completely surrounded by and economically reliant on, South Africa. Lesotho's economy is grounded on limited agricultural and livestock production and light manufacturing (textile, clothing, and leather). Lately, there have also been royalties from exporting water to South Africa through the World Bank-supported Lesotho Highlands Water Project (LHWP). Agriculture is a vital source of incomes for rural population. However, its contribution to Gross Domestic Product (GDP) is 4.7%, which is very low. Most farmers work on a small scale, while only a few are into commercial production of both crops and livestock (BOS, 2020). Agricultural crop production activities in Lesotho primarily rely on rainfed systems and the smallholder farmers are characterized by very limited input use and a heavy reliance on staple food production, which includes the production of maize sorghum, beans (BOS, 2022). Additionally, farmers also participate in livestock production; the main types of livestock enterprises include sheep, goats and cattle. Livestock herds can be in excess of 300 per household.

Lesotho, like many developing countries, has poor agricultural statistics. The Bureau of Statistics needs training and resources to collect accurate data that can be used for academic research and evidence-based policy formulation. Unfortunately, due to lack of reliable data, the status and performance of the agriculture sector in Lesotho is not well-documented. There is a dearth of literature on the agricultural sector performance in the international trade sphere. This study attempts to document the status of agricultural trade with the limited data available and presents factual status of the sector informed by the available information. Although data is limited, there is evidence that Lesotho still imports some agricultural commodities. Office of the United States Trade Representative (2023) asserts that U.S. total imports of agricultural products from Lesotho totaled \$60 thousand in 2019. Lesotho also has a vibrant Wool and Mohair sector that exports its output through South African brokers such as BKB Limited. Selected vegetable and fruits have received Global Good Agricultural Practice (Global G.A.P) training as part of efforts to improve trade and access to markets. Local Good Agricultural Practice (Local G.A.P) and GLOBALG.A.P support farmers in complying with regulations and requirements of local, regional and international markets, thus enhancing their competitiveness. Lesotho is yet to maximize benefits from Agriculture Growth and Opportunities Act (AGOA) in the agriculture sector, however, the textiles have benefited from AGOA since 2001. There is a high concentration of Lesotho exports in few markets and products. Over 80 percent of exports comprise textiles and diamonds, and about 85 percent of exports go to three countries—Belgium, South Africa, and the United States (IMF,2022), Most of the export activity is in non-agricultural commodities such as textiles and apparel (US), diamonds (Belgium) and water (South Africa). Although export activity in Lesotho's agriculture is low, however, there is evidence that indeed some activity in the export market are taking place. As part of the contribution to a book chapter on agricultural trade and international trade in Lesotho the researchers investigated the present status, performance, policy environment, barriers, enablers, strengths and opportunities of the agriculture sector in the imports and export markets.

The Government of Lesotho is making strides towards improving agricultural production and thus influencing agricultural growth in the country. These efforts are evident through projects such as the Smallholder Agriculture Development Projects (SADPs). SADPs are mandated to promote and improve agriculture growth through among others climate smart agriculture. Another project of significance is the Wool and Mohair Production Project (WAMPP) whose role is to enhance resilience to the adverse effects of climate change and economic shocks amongst underprivileged rural wool and mohair farmers across the country. Private Sector Competitiveness (PSC) project focuses on facilitating private sector investment in Lesotho by improving the business environment and diversifying sources of growth for Lesotho's economy and the agricultural sector, with emphasis on horticultural production. Over the years a major concern for smallholder farmers has been lack of linkage between research institutions and extension services. As a result, the Agricultural Productivity Program for Southern Africa (APPSA) was established to investigate farmers' problems and disseminate technological solutions to such problems in order to improve the livelihoods of smallholder in the country. It is expected that increasing the rate and quality of agricultural production, food security, employment opportunities, rural livelihoods and nutrition will boost the country's economy and GDP.

Although Lesotho has been an active in agricultural trade since the 1870's, there is a dearth of literature on agricultural trade for the country. There is evidence in the history of agricultural trade that Lesotho used to be an exporter of agricultural commodities, however the performance of Lesotho in international agricultural markets has been relegated to that of a net food importer. The performance of the agricultural sector has also declined over the years, with contribution of agriculture to GDP declining from 25 percent in the 1980's to the current 4.5 percent. To the best of the author's knowledge, there is a dearth of studies into the dynamics, complexities, opportunities, barriers and drivers of agricultural trade for Lesotho. Therefore this study seeks to provides a deep dive into the dynamics, complexities, opportunities, barriers and drivers of agricultural trade for Lesotho. The chapter will cover the following topics: The Status of Agricultural the Agricultural Sector in Lesotho, The History of Agricultural Trade in Lesotho, The Drivers, Opportunities and Barriers of Agricultural Production and Trade.

## **6.2 Methodology/Approach to The Study**

This study used both the descriptive and exploratory research design. The study attempts to use literature review and primary data sources to describe the history and status of agricultural trade in Lesotho. The study uses both primary and secondary data sources to explore the barriers and opportunities for agricultural trade to thrive in Lesotho. Data was collected through desktop research, stakeholder consultations, key informant interviews and questionnaire. The researchers collected secondary data from the Bureau of Statistics (BoS), UN COMTRADE and FAOSTAT to address the objective of this study. The consultations and interviews involved government ministries, private sector and parastatals that included the Ministry of Trade, Industry, Business Development & Tourism, Lesotho Revenue Services and Ministry of Agriculture, Food Security and Nutrition to collect data and information that contributed to the development of this chapter. The study used convenience sampling and snowball sampling to extract a representative sample of stakeholders and actors in the local agriculture and trade sector that could respond to questions on that address the objective of this study. The data collection instrument was a questionnaire that was distributed to respondents. Some of the respondents were also interviewed. The data from the primary data sources

was analysed using thematic analysis. The secondary qualitative data was also grouped under various themes and presented as findings of the study. The quantitative data was analysed using descriptive statistics and is presented in form of graphs, charts and tables.

### **6.3 The Status of Agricultural Sector and Trade in Lesotho**

The agricultural sector is a strategic sector in the growth of the Lesotho economy, and more than 70 per cent of the population's livelihoods are directly or indirectly linked to agriculture (Muroyiwa, 2022). Most of the country's population resides in the rural areas and relies mostly on subsistence farming. Lesotho imports around 80 per cent of its food requirements mostly from South Africa. The agricultural sector produces just about 20 per cent of the country's food requirements. More than 70 per cent of the population in rural Lesotho is engaged in agriculture, and the performance of the sector plays an important role in their wellbeing. However, arable land suitable for agriculture is below 10 per cent (270,000 hectares) of total land area (3 million hectares), 25,000 hectares of which are irrigable (Zero Hunger Strategic Review Report, 2018). Lesotho's population that resides in the rural areas engage in agriculture in varied degrees though agriculture accounts for only around 4-5 per cent of GDP (Zero Hunger Strategic Review Report, 2018). Agriculture used to contribute significantly to the country's GDP, contributing 40% at the inception of development planning in Lesotho; however, that contribution has declined over the years. Subsistence agriculture is the most dominant form of agriculture in Lesotho, with a limited number of farmers practicing commercial agriculture (Zero Hunger Strategic Review Report, 2018). Small manufacturing of textiles, garments and apparel dominate the private sector of Lesotho accounting for over 85 percent of exports to the US.

Lesotho's exports are dominated by the apparel sector (), which accounts for about 10 percent of GDP (IMF, 2022). Although agriculture employs majority of poor people in Lesotho, the sector has been deteriorating since the early 1990s. According to Ministry of Agriculture (1995), agriculture was by far the largest productive sector at the inception of development planning in Lesotho, contributing 40% of GDP. However, in the 1990s the relative contribution gradually declined averaging 19-20% of real GDP and is now contributing only 4-5 per cent as depicted in Figure 6.1. The decline in the relative sector contribution however seems to have resulted from rapid growth of the services and secondary sectors rather than an absolute decline in the agricultural sector (Ministry of Agriculture, 1995). According to the Lesotho Country Analysis (2017), the deterioration of the agricultural sector may be attributed to but not limited to a number of factors which include:

- Unpredictable weather conditions, inconsistent rains and persistent, recurring droughts (Climate Change);
- Limited access to finance and agricultural technology including inputs;
- Topography, human and livestock pressure, deforestation caused by veld burning, deterioration of range, soil erosion and loss of fertile soil;
- Land degradation and poor land governance;
- Gender inequality and equity.
- HIV/AIDS pandemic.



**Figure 6.1: Agricultural GDP and Contribution of the various Sub-Sectors**

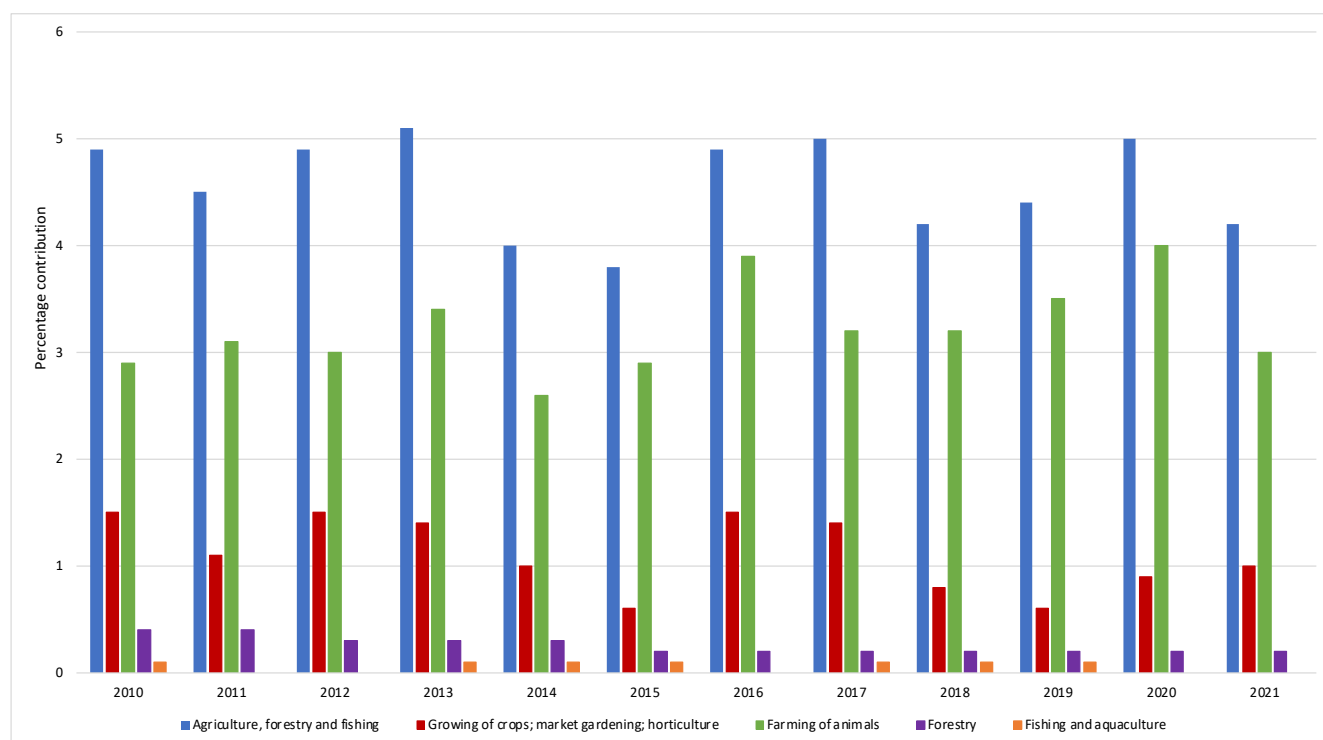


Figure 6.1 shows the agricultural GDP and the contribution of its various sub sectors. The livestock sector contributes relatively higher to agricultural GDP compared to other sub-sectors. This is largely due to the country's well-established and active wool and mohair sector. The wool and mohair sector not only contributes to agricultural GDP but to employment and trade because Lesotho exports significant quantities of wool and mohair annually. Crops are the second most significant contributor to agricultural GDP, but production levels are low with overdependency on South Africa for the huge deficits in production. Government, however has an ambitious plan to increase production of strategic crops with support from its technical partners such as FAO.

## 6.4 Drivers, Opportunities and Barriers of Agricultural Production and Trade in Lesotho

### 6.4.1 Drivers for Agriculture Production and Trade

Regional Economic integration with emphasis on establishing Free Trade areas is a supposed huge boost for driving agricultural production and trade. Lesotho is a member of various regional trading blocs that include SACU, SADC and COMESA. The SACU monetary union adopted the rand as a common currency, even though countries in SACU have their own country currencies which are pegged 1:1 to the South African Rand. As a result, regional integration and a stable exchange rate are possible drivers of trade. Regional blocs expand the size of the economy and market, providing incentives for all countries in the region to produce and supply this larger market.

Proper planning and resources can influence agricultural production and trade positively. The following are priorities by the Ministry of Agriculture Food Security and Nutrition in ensuring increased agricultural production:

- Increase Grain production: maize production from 27,900 tonnes (0.22 t/ha) to 438,000 tonnes (4 t/ha), wheat production from 5,700 tonnes (0.97 t/ha) to 48,700 tonnes (3 t/ha)

and beans production from 43,200 tonnes (1.5 t/ha) to 97,500 tonnes (2 t/ha) respectively by 2027.

- Increase wool and mohair production: wool production from 6,000 tonnes (2.7 kg/sheep) to 11,000 tonnes (5 kg/sheep) and mohair production from 800 tonnes (0.9 kg/goat) to 1500 tonnes (1.5 kg/goat) respectively by 2025.
- Increase livestock and livestock products: broilers and layers production by 5% from 2,604,611 birds and 565,064 birds respectively by 2025, local fish production by 10% from 2,031.56 tonnes by 2025. Reduce imports of beef by 10% from 1,063,748 tonnes by 2028.
- Increase high value crop production for mushroom from 11.8 tonnes to 250 tonnes, seed potato from 3.16 tons to 15 tons, tomato production from 1158 tons to 1344 tons and develop new technologies for asparagus, peach and apple production by 2025.

There are numerous opportunities that arise from regional economic integration and potential of Africa as a continent to trade.

#### **6.4.2 Opportunities for Agriculture Production and trade**

1. Lesotho's leather industry is in its infancy stage, but it has potential to grow. Despite the fact that shoes qualify for all benefits under AGOA, the country has just two shoe manufacturing factories. These two companies produce mainly for export and a great share of the domestic market relies on imports from South Africa. Although Lesotho is also into leather industry, the major industry in manufacturing sector is textile and garment industry, which has been in existence for 30 years competently servicing the United States (US) and regional markets. Lesotho has been highly successful in exporting apparel to the U.S., under AGOA, by utilizing the favorable rules of origin and duty-free and quota-free market access (IMF.2022). According to Lesotho National Development Corporation (LNDC), foreign direct investment opportunities in the leather industry would include leather tanning and finishing, footwear and footwear gears, leather outfits, leather goods such as bags, car seat covers, and other accessories (LNDC, 2023).
2. Vast endowment of water resources that projects like SADP and Millennium Challenge Corporation (MCC) seek to harness through assisting farmers with irrigation infrastructure and equipment. This will most likely increase production and enhance trade opportunities. Lesotho's fruits can be harvested two-three weeks earlier than that of its neighbour South Africa in the Western Cape Province due to Lesotho's high altitude. Therefore, the increase in production will likely have ripple effects such as increase in trade opportunities since producers in Lesotho are able to provide the market much earlier than their regional counterparts and since production is expected to increase there will be surplus to sell. The Market Driven Irrigated Horticulture (MDIH) seeks to assist Lesotho in achieving import substitution of food imports because the food import bill is high and the trade balance for food has not been in favour of Lesotho for years.
3. Donor good-will and agricultural sector support provide a huge opportunity for the country to improve its agricultural production and infrastructure in order to achieve local agricultural transformation. This will have a positive influence on agricultural trade.
4. Lesotho's agricultural sector faces numerous climate-related vulnerabilities such as floods, pests, drought and extreme temperatures. In response to these disparities the Lesotho government collaborated with the World Bank to integrate climate change into the country's agriculture policy program through the Lesotho Climate-Smart Agriculture Investment Plan

(CSAIP). CSAIP acknowledges the climate-smart agriculture (CSA) as an investment that offers the utmost potential to transform agriculture in Lesotho into a more productive, resilient, and low-emissions sector.

5. Furthermore, government subsidies for inputs such as improved varieties and fertilizers boost crop growth and yield, especially during rainy seasons.
6. One other benefit for agricultural trade is the use of South African Rand (Monetary union) between South Africa, Namibia, Swaziland and Lesotho, which reduces transaction costs. Subsequently, trade among member economies of monetary union is expected to increase and access to the markets will be opened to a greater regional market. Therefore, the removal of exchange rate volatility in these countries is expected to attract investors to finance across borders, resulting in further financial integration.
7. Lesotho is an eligible country under AGOA; thus it enjoys duty-free access to the U.S. market with over 6,400 products (AGOA info, 2016).
8. Lesotho 's tariff rates are to a great extent influenced by the SACU Agreement, as a result, it does not apply any customs or import duties to products originating from other SACU member states, viz., Botswana, Namibia, Swaziland and South Africa. Nevertheless, goods imported from countries outside the Union are subject to import duties in accordance with SACU's common external tariff.
9. Lesotho has specifications and measures for sanitary and phytosanitary (SPS) which is handled by department of agricultural research for imports and exports of a wide-range of agricultural products. These standards make it easier to facilitate both imports and exports into the country.
10. There are vast prospects for private sector investment in processing and packaging operations, filleting, trimming and smoking, and extraction of omega oils. Investment in these sectors will likely have a positive influence on agricultural trade.
11. Rosehip is exported to UK, there is an opportunity to increase production and hence enhance trade opportunities.

#### **6.4.3 Barriers to Agriculture Production and trade**

Trade restrictions which are a recurrent every season when some crops are available in excess during harvest when these crops are in season. Farmer Associations lobby the government through the Ministry of Agriculture, Food Security and Nutrition to close the borders for them to be able to sell their produce. Normally, these trade restrictions are abrupt, affecting international trade in these commodities. For example, in 2021, Lesotho placed temporary import bans on fresh produce such as tomatoes, green beans and green pepper. Most farmers that benefited from SADP are producing fresh produce in protected structures; production has increased, but the local farmers can only supply the market for a limited period. The temporary import bans are normally for just one month and the local producers supply depletes.

Agriculture is a weather-driven industry, so environmental conditions have an impact on the sector's performance. The main environmental challenges affecting the agriculture sector in Lesotho include erosion, land and environmental degradation, and low soil fertility. Environmental degradation has been worsened by agricultural activities on steep slopes and marginal lands, overgrazing of rangelands, and over stocking of animals that puts pressure on the rangelands. Low productivity is a huge barrier to both local and international trade. It is encouraging that the country has plans to

increase production which can increase trade activity as more farmers will produce for commercial purposes.

The lack of formal and registered abattoirs in the country has been a perennial barrier for the meat producers in the country to penetrate and supply formal markets. South Africa this year was hit by the avian influenza endemic which threatened the poultry sector resulting in shortages of chicken and eggs. Prices of chicken and eggs increased due to shortages in the market, and the challenges in South Africa have affected fast food chain Kentucky Fried Chicken which had to close its franchises temporarily as they did not have chicken supplies. The local market could not fill this gap as there are not certified abattoirs that handle meat locally. Government of Lesotho should strive to identify private sector actors that can take up this important role in the meat value chain. Due to lack of proper infrastructure and bodies that regulate quality meat standards and issues to do with sanitation and food safety Lesotho is failing to exploit trade opportunities in the meat sector.

## **6.5 Trade Agreements and Policy Developments Affecting Agricultural Trade**

The policy environment determines how various actors in the economy perceive opportunities in the economic environment, as well as the mood of potential investors and perceptions of the business-operating environment. Lesotho has been working on the National Agriculture Investment Plan (NAIP) with the assistance of the Food and Agriculture Organisation for many years. The policy is in line with the Comprehensive African Agriculture Development Programme where countries according to the Maputo and Malabo Declarations are encouraged to invest at least 10% of public expenditure in agriculture, which is supposed to result in 6% agricultural production. The Comprehensive Africa Agriculture Development Programme (CAADP) was established with the aim of increasing public investment in agriculture by a minimum of 10 per cent of national budgets, and raising agricultural productivity by at least 6%. Lesotho is a signatory to this agreement and has thus been working stay on track in terms of meeting the commitments made by Heads of State in 2014 in Malabo, Equatorial Guinea. Such a policy would influence agricultural production, thereby stimulating agricultural trade.

Unfortunately, agriculture public expenditure as a percentage of total budget remains low in most governments of African countries. Lesotho spends significant resources into the Universal Input Subsidy Programme, whose objective is to influence food security and poverty reduction. The impact of this program is yet to be evaluated at government level. However, independent evaluations note that the program has failed to meet its objectives due to reasons that include long procurement processes, lack of proper targeting of beneficiaries and late delivery of inputs to beneficiaries. In contrast to this, major industrial countries' agricultural support policies have succeeded in influencing agricultural production in their countries, which resulted in large imbalances and excess production in the global markets. These policies have reduced market access for efficient agricultural exporters, many of which are developing countries, and the disposal of surplus production on world markets has had a depressing effect on world food prices. Lesotho is yet to reap the benefits of investing heavily in agricultural support policies such as input subsidy; therefore, the country should consider an overhaul of the agricultural support policy of subsidising inputs or cease the subsidy in favor of supporting agro dealers/input suppliers by creating an enabling environment.

Lesotho's engagement policy demonstrates her willingness to trade with other countries in the region and beyond. Lesotho is a signatory of a number of trade agreements. Some of the trade agreements include Southern African Customs Union (SACU), Southern African Development Community (SADC), Agriculture Growth and Opportunities Act (AGOA). The country is also a member of the EU-SADC Economic Partnership Agreement (EPA), an agreement which makes it easier for people and businesses from the two regions to invest in and trade with each other. The agreement has potential to spur development across Southern Africa. The EU - SADC EPA member states comprise of Botswana, **Lesotho**, Mozambique, Namibia, South Africa and Eswatini (formerly Swaziland,) which signed the SADC EPA agreement on 10 June 2016 (European Commission, 2023). The EPA came provisionally into force since 10 October 2016, with Mozambique provisionally applying it from 4 February 2018. Lesotho's agricultural sector may take advantage of this agreement since it provides access to EU markets for these SADC member countries. The SADC EPA is a development-focused trade agreement, granting asymmetric access to the partners in the SADC EPA group. In terms of trade in goods, the new market access includes better trading terms mainly in agriculture including wine, sugar, fisheries products, flowers and canned fruits.

The EU is South Africa's major trading partner and Lesotho can take advantage of this since it has close ties with South Africa geographically and politically. Farmers in Lesotho can aggregate their output with SA big producers to penetrate the EU market as well. The conditions in Lesotho are favorable for aquaculture and horticulture production. There is indeed potential for the country to excel in global markets in these two key areas of production due to the country high altitude and very cool conditions that favour aquaculture. The quality of potatoes produced in Lesotho is another comparative advantage factor that the country may take advantage of as she explores how government support and shift in policy may influence agricultural trade. The country has also signed contracts with a number of medical cannabis producers, a niche and growing market for pharmaceutical products. This is yet another area that has potential to increase agricultural trade of Lesotho and other countries. The country's trade policies have been adjusted and are friendly to investors in the medicinal marijuana industry. This however, brings its own set of challenges as using land for medicinal cannabis means that the country has to sacrifice production of other commodities. Most of the investors in this business rent land from local farmers since they are foreign investors who have capital and afford the expensive licenses to operate such enterprises. The limited participation of local investors raises concern over the sustainability of such an enterprise.

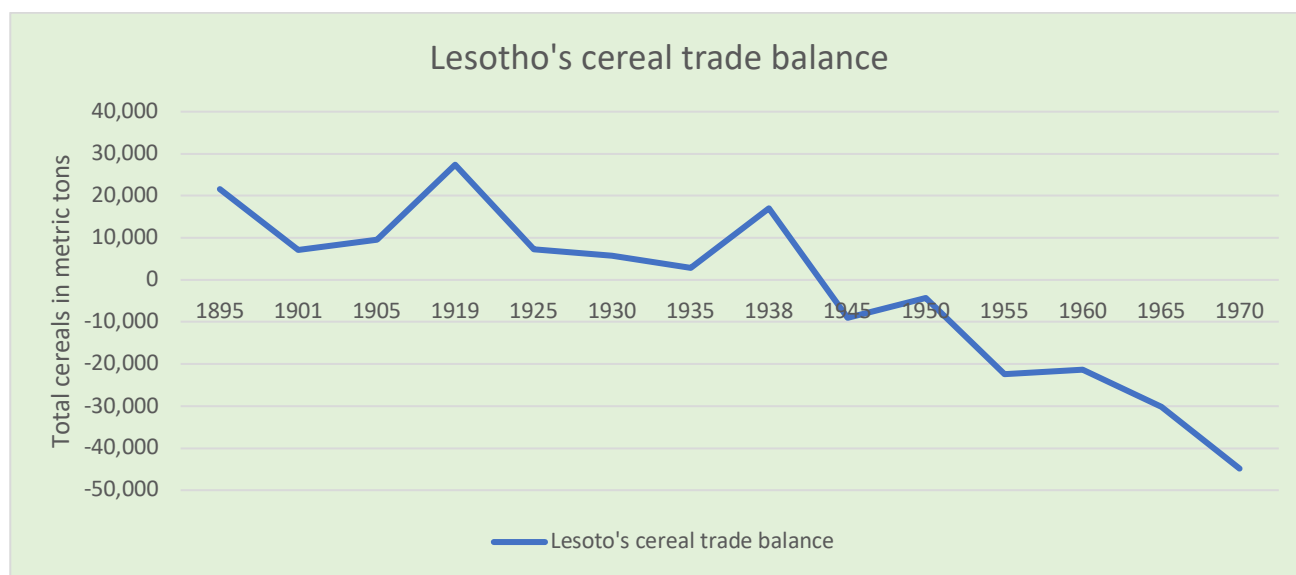
## **6.6 History of Agricultural Production and Trade in Lesotho**

Farming amongst the Basotho people started first with herding cattle in the 19<sup>th</sup> century, which were considered valuable at that time (Turner, 1978). The history of Lesotho's international trade in agriculture dates back to the 1800s during the reigns of the founder of the Basotho nation, King Moshoeshoe the First. As pointed out by Turner (1978), recent studies on African farming tradition have often been adduced as an important and respectable repository of ecological wisdom is necessitated by autarkic difference in relative factor prices between countries (du Plessis, 1996). The scenario is referred to as Heckscher-Ohlin trade model. Under this model the two trading partners benefit from trading with each. While the question of validity of Heckscher-Ohlin trade model is not key in our context, one is tempted to ask the question: Was Lesotho more endowed in production of agricultural output than her historical trading partner, Republic of South Africa?

Production of maize was introduced to the Basotho in the 19<sup>th</sup> century by missionaries. As noted by Turner (1978), Mission stations were centres of agricultural innovation, particularly as converts were more receptive to such new ideas and because traders who could supply new implements and seeds or purchase crops tended to establish themselves at these places. It is further recorded that maize was introduced to other tribes during wars (lifaqane) in the 1800s. Wheat was cultivated later following contact with Dutch settlers and hence the Sesotho name koro originating from Dutch koring. Adoption of wheat by the then Basotho farmers grew rapidly as a result of its marketability across Caledon river (Mohokare). Moreover, another agricultural innovation was adopted, which according to Turner, (1978) transformed the economy in short space of time in the 1870s. Still introduced by the missionaries, adoption of plough brought noticeable change in the economy. It is recorded that 3700 plough were sold in five years resulting in increase in trading stations from 20 to 50. In the wake of the increase in the use of plough, which was far more efficient compared to hand hoe, 100,000 bags of cereals and 2000 bales of wool were exported in 1873.

While the statistics can barely be found on production quantities during the 1800 years, the graph below shows a surplus cereal trade balance in the 19<sup>th</sup> century. A downward trajectory is observed however, until the 1940s when the surplus dissipated leading in to the prolonged deficit through to the 1970s. The basic yet pertinent question that comes to mind would be what could have been the reason for a declining trend from a consistently surplus trade balance to a prolonged deficit trade balance. Could this emanate from growth in the Basotho population, which increased demand for food domestically? Could it be due to nutrient depletion resulting in general decrease in crop yield? Was the series of wars (lifaqane) the explanatory factor or combination of them all? Could resource endowment be at play and thus shifting to cheaply produced products?

**Figure 6.2: National Grain Trade balance transition late in the 19th century**



Source: S. Turner, 1978 p 69 quoting colonial reports (1895-1960)

### ***International agricultural trade boom in history***

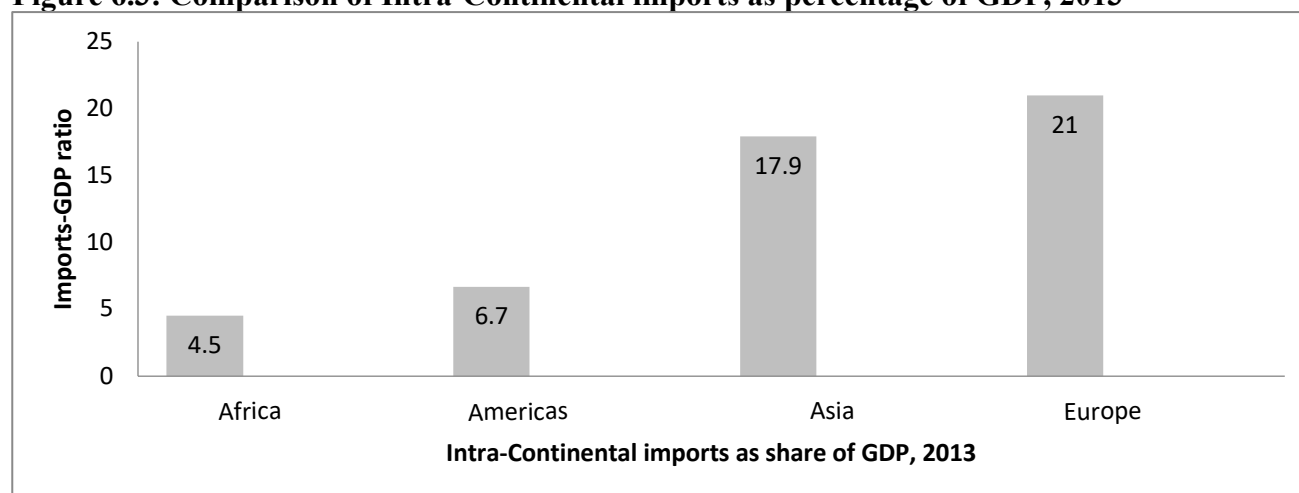
Adoption of plough as an improved agricultural technology promoted efficiency and improved productivity and production. In words of Turner (1978), “The adoption of the plough thus permitted a radical change in the economy of the Basotho as they began to trade in grain.” Deducing from this

statement, adoption of a plough marked the genesis of international trade in agriculture in the then Basutoland. While wars were obviously prohibitive, Basotho traders proved to adapt quickly and their resilience stood the test of time. In the mid nineteenth century, as noted Turner (1978), Basotho farmers, encouraged by missionaries, produced a new crop, wheat, whose lucrative market was booming in Kimberly diamond mines in South Africa, despite political and military tribulations of the 1860s. The imposition of British rule established a more stable condition for cultivation and trade (Turner, 1978). In 1873 the resultant increase in exports of cereals was observed at a total of 100,000 bags of maize, wheat and sorghum and 2000 bales of wool, and imports of manufactured goods were valued at 150,000 British Pounds (Murray 1980; Turner 1978). However, due to a series of wars with Dutch settlers in the then Orange Free State, Basotho traders were sometimes unable to export their agricultural output. The Anglo-Boer war of 1899-1902 closed the usual outlets for export of grain and it was followed by another depression and a drought (Murray, 1980).

## 6.7 Agricultural Trade Patterns over the Past 25 Years

Trade environment within African continent has always been very unfavourable. This is attributed to lack of infrastructure, Information Communications Technology (ICT), tariff and non-tariff barriers, non-tariff measures and time-consuming customs procedures which all impede smooth trade, welfare gain and resultant economic development in Africa (UNECA, 2015; Stiftung, 2016). While intra-African trade is characterized by competitive trading of unprocessed primary products including agriculture produce, Figure 6.3 illustrates intra-continental imports as share of GDP in Africa, South and North America, Asia as well as Europe. The lowest share was in Africa at 4.5 percent followed by that of the Americas at 6.7 percent. More trade took place in both Asian and European continents at 17.9 percent and 22 percent, respectively in 2013.

**Figure 6.3: Comparison of Intra-Continental imports as percentage of GDP, 2013**



*Source: Prepared by author based data from UNECA, AU & AfDB (2016)*

In pursuit of improved trade environment among African countries the creation of the African Continental Free Trade Area (AfCFTA), which was conceptualized as a stepping stone towards African Economic Community that was established by Organization of African Unity (OAU) Abuja Treaty in 1991 (UNCTAD, 2016). In light of this, the twenty-fifth African Union (AU) Summit that was held in South Africa in June 2015 by African Heads of Government, adopted the negotiating guidelines and roadmap for creation of AfCFTA by 2017, (UNCTAD, Policy Brief No. 44. December

2015; Draper *et al*, 2016). It was agreed that by 2017 the agreement will be there on liberalization of trade in goods and services through negotiations (UNCTAD, 2018). As noted by UNCTAD (2018) the first round of negotiations occurred in February 2016 followed by the approval of rules of procedure for the CFTA in May 2016. The agreement establishing AfCFTA was however adopted a bit late (as per the scheduled timeline) in Kigali on 21 March 2018 during AU Summit, as noted in Trade Law Centre (TRALAC) Trade Brief, (2018).

Trade liberalization between African countries would auger well for improved infrastructure, welfare gains and economic growth. The UNCTAD Policy Brief (2015) estimates that the full liberalization of trade in goods (manufactures and agriculture), could have raised the share of intra-African trade in total from African trade from about 10.2 to 15.5 per cent between 2010 and 2022. An important lesson of international trade theory is that trade allows countries to experience higher levels of welfare than is possible in the closed economy, (du Plessis, 1996). Based on the Ricardian trade model, trading countries can mutually benefit from trade given that there is a difference in pre-trade price ratios of goods involved. There are, however key sectors which should be put at the forefront as set out in the Aid for Trade of World Trade Organization (WTO) in order to have a Free Trade Area fully functional and effective. Examples of such sectors as shown in the UNCTAD Policy Brief, Number 44 of 2015 are distribution; finance; information and communications technology; infrastructure; telecommunications; and tourism. Implicit in this paragraph are the challenges which confronted and as yet continue to be a problem for intra-African trade and hence the subject of the next section.

### ***Trade Challenges in Africa***

UNCTAD (2016) notes that while formation of Regional Economic Communities (RECs) within Africa were initially seen as a milestone indicative of achieving the AfCFTA, nevertheless, coherence from among the RECs poses a key challenge because countries have overlapping RECs memberships (Spaghetti Ball). UNCTAD (2016) identifies that the overlapping trade agreements has been a reason for the poor implementation of regional integration schemes in Africa, resulting in limited trade effects. It is almost impossible for a multi-REC member to comply to a given set of rules that are often conflicting. Specifically, such a member is faced with multiple and different tariff regimes and non-tariff barriers. Secondly, different Rules of Origin (ROOs) corresponding to multiple RECs to which a country is a signatory may result in additional difficulty, depriving the country of preferential market access.

Multiple Rules of Origin within the RECs, which usually discourage trade, and their harmonization could also prove to be hectic. This is another challenge facing the AfCFTA particularly true with regard to the Economic Partnership Agreements (EPAs) between the European Union (EU) and African countries and RECs (UNCTAD, 2016). Therefore, elimination of tariffs on goods originating from within the continent have to be clear and well defined in order for such goods to be easily identified (UNCTAD, 2016; Draper *et al*, 2016). Clearly the ROOs could be very restrictive on trade as opposed to preventing trade deflection particularly for informal and usually small African producers (Draper *et al*, 2016). So, harmonization of rules of origin emanating from different regional economic communities in Africa is one of very important issues to be addressed with maximum vigilance in order to improve the intra-African trade environment. As Draper *et al*, (2016) put it:

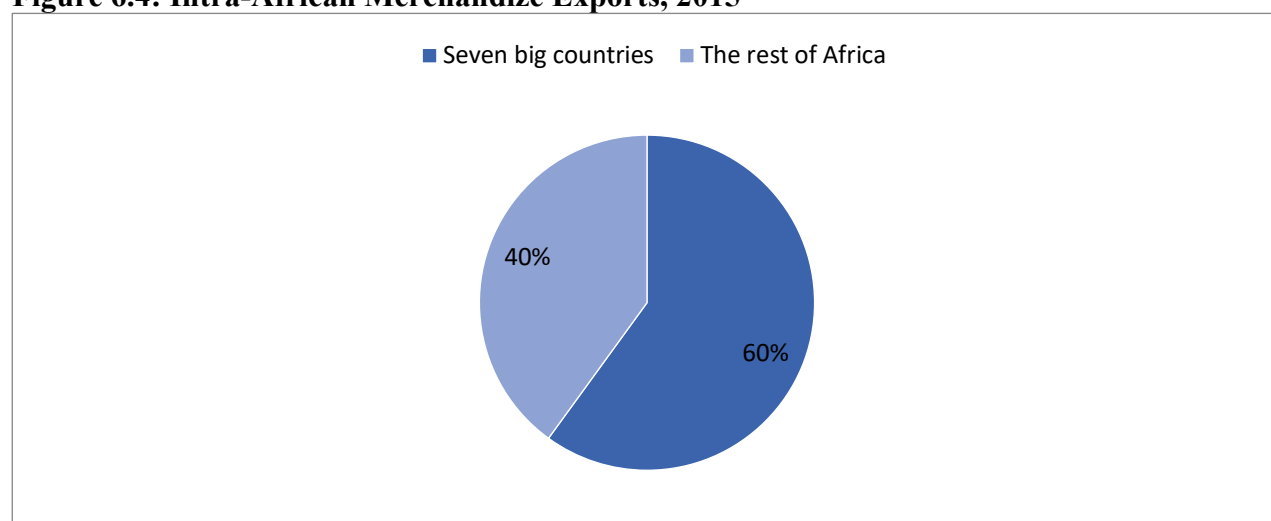
*“Striking the balance between when rules of origin are legitimate instruments to prevent trade deflection and when they start to go beyond what is necessary is increasingly difficult in practice. At*



*the point where rules of origin become more trade restrictive than necessary to serve their intended purpose, they end up harming preferential trade among the partners...”*

According to the United Nations (2015), uneven trade growth and accrual of welfare benefits from AfCFTA is inevitable as relatively well-off economies such as Algeria, Egypt, Kenya, Nigeria and South Africa are likely to reap the lion’s share of welfare gains. This is because these countries greater supply capacity and competitiveness. Figure 6.4 illustrates dominance of the above-mentioned countries plus the other two countries. As denoted by Figure 6.4, seven countries accounted for 60% of intra-African merchandise exports while a total of 47 countries (around 87% of Africa) accounted for only 40%.

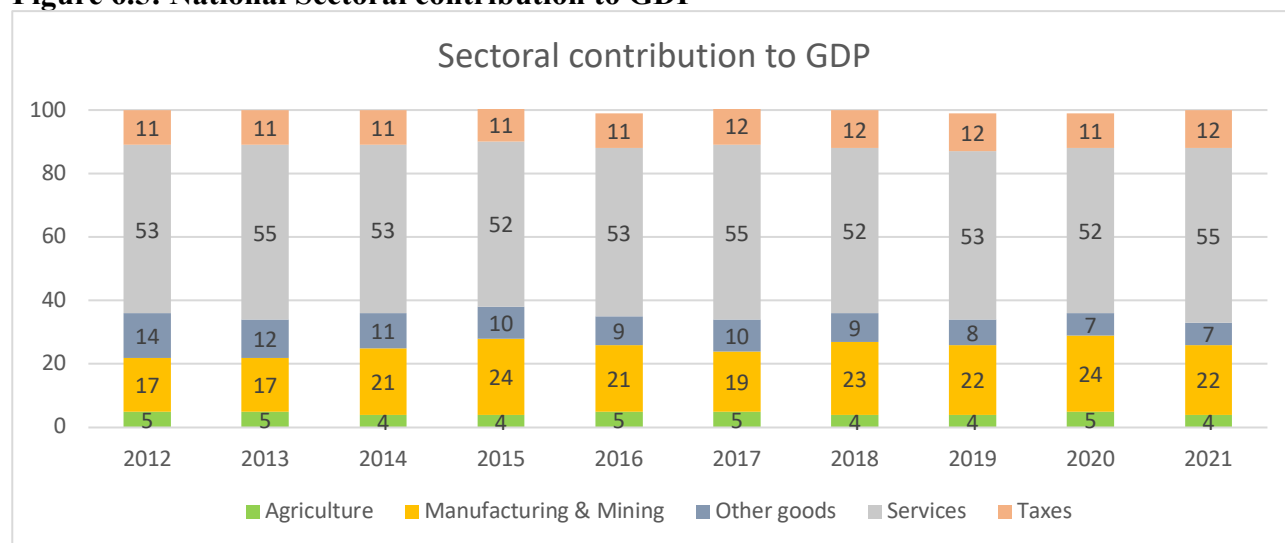
**Figure 6.4: Intra-African Merchandize Exports, 2015**



*Source: Prepared by author based on data from Policy Paper by UNCTAD, 2015*

Figure 6.5 presents the national sectorial contribution to GDP. We look at agriculture’s contribution to GDP over the period of 10 years. The sector’s contribution to GDP has been minimal ranging from 4 per cent to 5 per cent. While this contribution to GDP may not be a reliable indicator of sector performance, agriculture has consistently contributed minimally from 2012 to 2021.

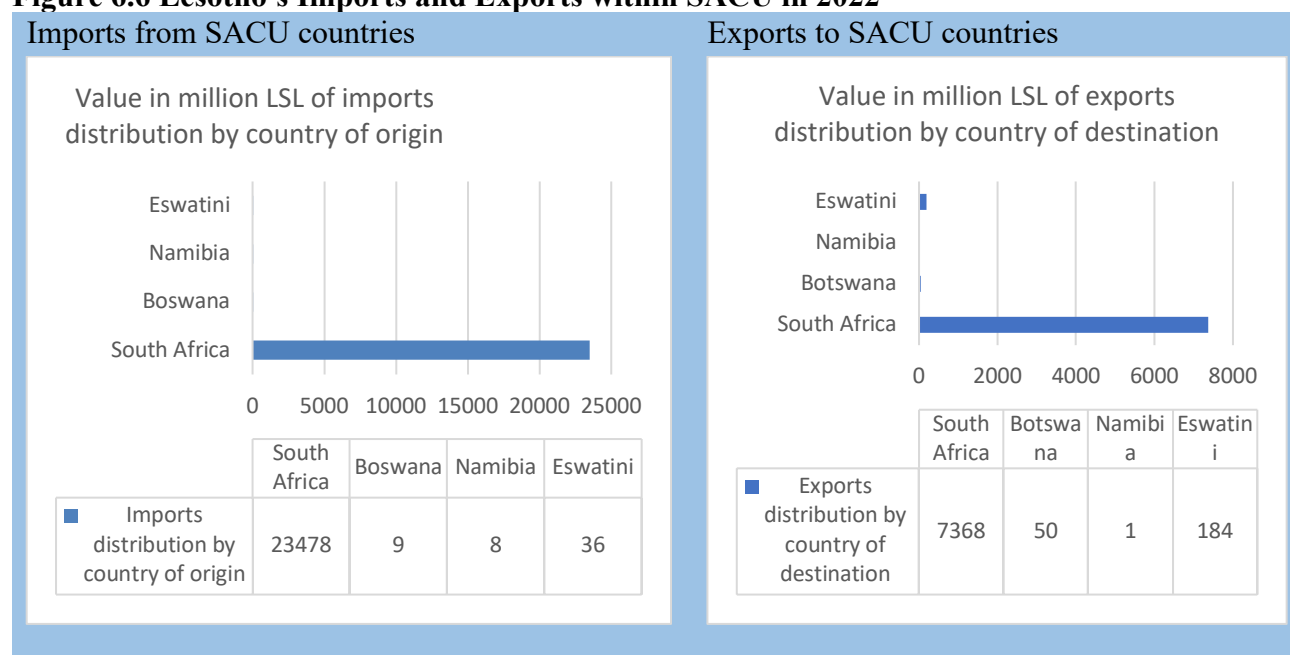
**Figure 6.5: National Sectoral contribution to GDP**



*Source: Annual National Accounts of Lesotho (Bureau of Statistics, 2022)*

Having highlighted agriculture's contribution to GDP, we attempt to establish the structure and pattern of Lesotho's agriculture trade. As Figure 6.6 shows, South Africa is main Lesotho's trading partner among SACU member states. The figure also implies that Lesotho has not taken full advantage of a duty-free market access for her produce within the rest of SACU countries constituting 6.2 million people excluding South Africa, (SACU in figures, 2022). The population of South Africa was estimated to be 60.6 million in June 2022 (Statistics South Africa, 2023). Therefore, in addition to the 6.2 million SACU population excluding South Africa, Lesotho has access to an additional 60.6 million potential market. However, in terms of agricultural trade, Lesotho has failed to capitalise on this huge potential market, while this estimated 66.8 million market has greatly benefited South Africa.

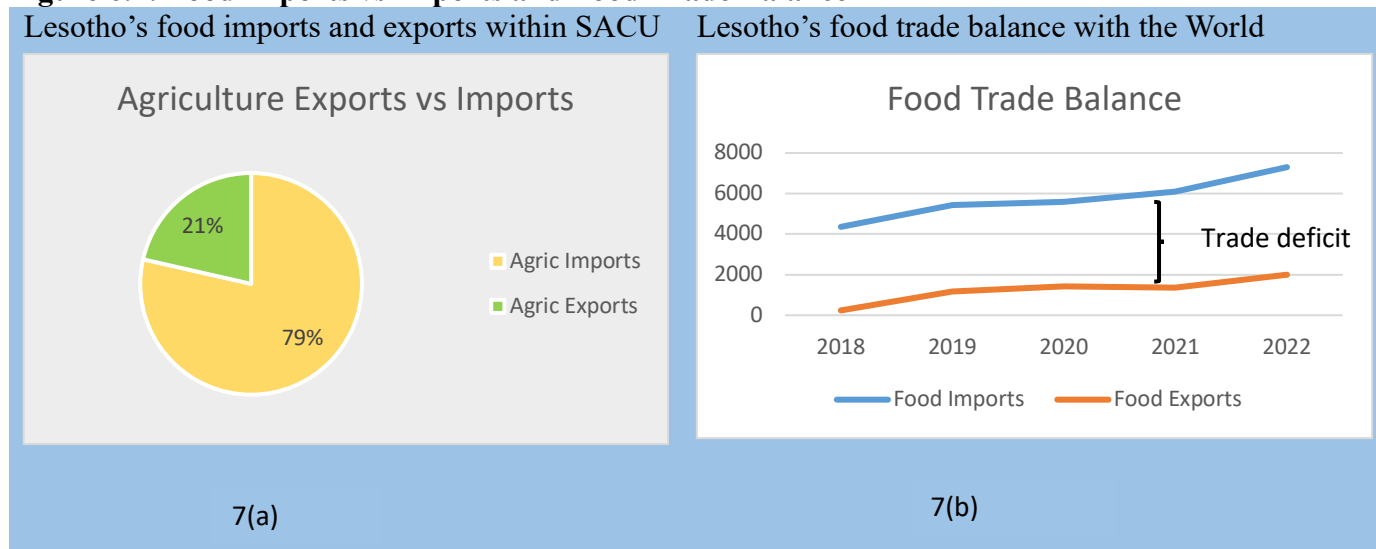
**Figure 6.6 Lesotho's Imports and Exports within SACU in 2022**



*Source: Own developed from data sourced from Bureau of Statistics, (foreign trade statistics, 2022)*

Imports of food, live animals and beverages as a percentage of total imports within SACU bloc is 30.1%. On the other hand, the same commodities account for 25.8% of total exports in SACU. However, to avert ambiguity, it should be noted that Lesotho exports of agricultural produce relative to her imports of the same commodities, are far below half of agricultural imports mainly for South Africa. Figure 6.7 illustrates a trade deficit and thus unfavourable trade balance in 2022. The obvious question is whether the country has had a consistent and stubbornly high trade deficit since 1910, when the customs union was established. Lesotho's trade balance seems to have been consistently in the deficit over the last five years.

**Figure 6.7: Food imports vs Exports and Food Trade Balance**



Source: Developed with data from Foreign Trade Statistics Report of BoS (2022)

### 6.8 Transition Pathways From Food Insufficiency to Food Self Sufficiency and Exporter

Lesotho is a net importer of agricultural commodities, but has a lot of potential if the right policies are put in place to support some key and strategic sectors that have potential to drive the economy to self-sufficiency. Developed countries have invested significantly in their agricultural sector, resulting in huge gains in agricultural productivity and a negative impact on agricultural commodity prices in the global trade markets. However, their agricultural policies provide evidence that quality investments in the sector can help countries achieve food self-sufficiency and catapult countries to export status in order to dispose of surplus production. Lesotho has potential in horticulture, aquaculture and production of medicinal cannabis. It also has vast water resources which have not been harnessed for irrigated agriculture. Irrigated agriculture could be a game changer for Lesotho because the amount of irrigated land is very low in the country while production is also low due to over dependence on rain fed agriculture. Lesotho has two large water reservoirs built as part of the Lesotho Highlands Water Project (LHWP), with the third reservoir planned under Phase II. Feasibility studies have shown that the water in the current dams offers near perfect environmental and climatic conditions for trout production. Consequently, there are two trout farms, Katse Fish Farm (KFF) and Sanlei Premium Trout Lesotho (SPTL) run at Katse Dam. KFF is licensed to produce 1,200 tonnes per year and exports chiefly to food service outlets in Southern Africa. On the other hand, SPTL is licensed to produce 2,500 tonnes per year and exports primarily to Japan. There are opportunities to establish additional farms at Mohale dam, and the planned Polihali dam.

Private Sector Competitiveness (PSC I) project established fruit apple orchards in Likhothola, Maoamafubelu and Likhetlane Leribe. Fruits from these farms are locally consumed, and according to farmers at Leribe they were only able to export golden delicious apples in 2022 (8 bins only). This means that there is need for expansion into other areas to target export market. An increasing focus in horticulture occurred after the implementation of a world bank supported Private Sector Competitiveness (PSC) project, which has two sub-components namely vegetable production and fruit production that is, apples and cherries. In this initiative farmers in Lesotho have partnered with two South African companies, Alpha Farms and Denmar estates, to produce for the Lesotho, South Africa and EU markets. Due to the country's geographic location, good soil, and abundance of water,

the quality of the produce is good. More importantly, the fruits ripen earlier than in other countries in the southern hemisphere, which offers a prospect to supply the regional market early in the season. Furthermore, climatic conditions in Lesotho are good for mushroom farming, and the demand for mushrooms produced in Lesotho is very high in South Africa, Botswana, and other southern African countries. An opportunity for processing and packaging of horticulture products exists for food processing industry. Moreover, the existence of SADP brought about a climate smart agriculture through provision of tunnels and shade-nets for horticultural production for small-scale and progressive farmers in Lesotho. This initiative has led to Basotho farmers taking advantage of new market opportunities (international trade Administration, 2021).

Upcoming projects like Millennium Challenge Corporation Market Driven Irrigated Horticulture (MDIH) have potential to transform the country's horticulture sector. MDIH is following up on the successes of PSC project that increased the attention of government and development partners in horticulture. It also follows up on the successes of Smallholder Agriculture Development Programme (SADP I) whose emphasis was intend to increase horticultural production in Lesotho using a farmer-investor model. This project is in its early stages of implementation however the emphasis is on massive investment in infrastructure that includes irrigation equipment.

## **6.9 Summary Conclusions and Recommendations**

The disparity between inadequate natural resources and a mounting appetite for farm products makes agricultural trade important to meet universal food demand which brings with it additional opportunities for farmers, agribusinesses, as well as investors. This study collected data from various actors in the agriculture and trade sectors of Lesotho to determine the historical, current status, opportunities and barriers to agricultural trade in Lesotho. The main barrier was low productivity and the country's over reliance on its only neighbour South Africa for food imports. This barrier creates favorable trade terms and opportunities for South Africa at the expense of local traders. Lack of infrastructure such as abattoirs, irrigation infrastructure, cold chain facilities and limited production hamper trade in agriculture. The policy and regulatory environment for trade is secondary, most importantly Lesotho needs to invest more in productivity and production. Lesotho has comparative advantage in fruits sector which the government and investors need to take advantage of this to enhance trade opportunities. Sectors such as Wool and Mohair need continued support for them to continue to thrive and contribute to agricultural trade.

Aquaculture, horticulture and medicinal cannabis are sub sectors in agriculture in Lesotho that have potential for growth and which can contribute significantly to employment and trade. The study findings indicate that some of the investors that received licenses are exporting cannabis, there is also huge potential for exporting rosehip and produce from aquaculture such as the popular trout fish. The government should work towards creating an enabling environment for private sector to invest in these strategic sub-sectors in agriculture. Wool and Mohair farmers are already highly organised they just need more support to increase their production and also ensuring that the markets buy farmer produce at fair market prices. The Local and Global GAP training provided to local horticultural farmers will increase quality of produce which will assist the farmers to penetrate lucrative markets. The study recommends more trainings to farmers and more public and private sector investment in infrastructure that can help unlock production and hence improve trade opportunities. The apparel and textile industry success in Lesotho through AGOA is a good example of how to lure investors with benefits of creating employment and expanding trade. The GoL must also take full advantage of

the various projects in the agriculture sector that aim to improve the sector to guide the projects to invest meaningfully in key strategic activities, sectors and infrastructure that will not only boost productivity and production but also enhance trade opportunities for producers and other value chain actors.

## References

- Africa Agriculture Status Report (2016). Progress towards Agricultural Transformation in Africa. [Online] Available: <https://agra.org/aasr2016/public/assr.pdf>
- Africa Agriculture Status Report (2017). The Business of Smallholder Agriculture in Sub-Saharan Africa.
- Africa Agriculture Status Report (2018). Catalysing Government Capacity to Drive Agricultural Transformation. [Online] Available: <https://agra.org/wp-content/uploads/2018/10/AASR-2018.pdf>. Accessed September 2023
- Africa Centre for Biodiversity (2016.) Farm Input Subsidy Programmes (FISPs): A benefit for, or the Betrayal of, SADC's Small-Scale Farmers.
- Africa Union (2018). Inaugural Biennial Review Report of the African Union Commission on the Implementation of the Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared prosperity and Improved Livelihoods. Department of Rural Economy and Agriculture (DREA). The 2017 progress report to the Assembly. [Online] Available: <https://www.resakss.org/node/6501> Accessed September 2023
- African Union Commission (2014). Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods. [Online] Available: [http://www.resakss.org/sites/default/files/Malabo%20Declaration%20on%20Agriculture\\_2014\\_11%2026-.pdf](http://www.resakss.org/sites/default/files/Malabo%20Declaration%20on%20Agriculture_2014_11%2026-.pdf).
- BOS (2020). Lesotho Agricultural Census 2018/2012-Volume 12: Livestock Statistics Report December, 2020
- BOS (2022). Lesotho Agricultural Census 2019/2020-Volume II: Livestock Statistics Report December, 2022
- Draper, P. , Chikura, C. and Krogman, H. January (2016). *Can rules of origin in sub-Saharan Africa be harmonized? – A political economy exploration*. Discussion paper published by German Development Institute (d.i.e). Available online: [https://www.die-gdi.de/uploads/media/DP\\_1.2016.pdf](https://www.die-gdi.de/uploads/media/DP_1.2016.pdf). Date accessed: 15 September 2023.
- du Plessis, S. P. J. (1996). *International Economics*, 2<sup>nd</sup> Edition. Pretoria: Heinemann.
- GoL (2018). Lesotho Zero Hunger Strategic Review Report. Food and Nutrition Coordinating Office. Office of Prime Minister. [Online] Available: <https://reliefweb.int/report/lesotho/lesotho-zero-hunger-strategic-review-2018> Accessed September 2023
- IMF (2022). Kingdom of Lesotho: Selected Issues. International Monetary Fund. African Dept. 2022(162): 91
- Lesotho Country Analysis (2017). [Online] Available: [http://www.undp.org/content/dam/unct/lesotho/docs/Ourwork/Lesotho%20CCA\\_Final%20Draft\\_22%20September%202017.pdf](http://www.undp.org/content/dam/unct/lesotho/docs/Ourwork/Lesotho%20CCA_Final%20Draft_22%20September%202017.pdf). Accessed September 2023.
- Ministry of Agriculture (1995). Lesotho Country Report to the FAO International Technical Conference on Plant Genetics Resources, FAO.

- Muroyiwa, B. (2022). Agricultural Transformation in Africa: Lessons learnt from the Domestication of the Comprehensive African Agriculture Development Programme (CAADP) Processes in Lesotho. *Journal of African Union Studies*, 11 (3) : 5-25.
- Murray, C. (1980). From granary to labour reserve: an economic history of Lesotho. *South African Labour Bulletin*, pp. 3-20.
- Stiftung, B. (2017). Boosting Intra-African Trade: Hindrances, Opportunities and Continental Free Trade Area. *Global Economic Dynamics*.
- Turner, S. (1978, May 1). Sesotho farming: the condition and prospects of agriculture. PhD Thesis. London, London, Britain: ProQuest LLC.
- UNECA. (2016). Africa Regional Integration Index. Report published by United Nations Economic Commission for Africa (UNECA). Available online: [https://www.uneca.org/sites/default/files/PublicationFiles/arri-report2016\\_en\\_web.pdf](https://www.uneca.org/sites/default/files/PublicationFiles/arri-report2016_en_web.pdf). Date accessed: 12 September 2023.
- UNCTAD (2015). *Strengthening the private sector to boost continental trade and integration in Africa*. Policy Brief No. 33, published by United Nations Conference on Trade And Development (UNCTAD). Available online: <http://unctad.org/en/Pages/ALDC/Africa/African-Continental-Free-Trade-Area-Series.aspx>. Date accessed: 14 September 2023.
- UNCTAD (2015). *Continental Free Trade Area: Making it work for Africa*. Policy Brief, No. 44 published by United Nations Conference on Trade And Development (UNCTAD). Available online: <http://unctad.org/en/Pages/ALDC/Africa/African-Continental-Free-Trade-Area-Series.aspx>. Date accessed: 13 September 2023.
- UNECA (2016.) *Innovative, Competitiveness and Regional Integration: Assessing regional integration in Africa VII*. Report published by United Nations Economic Commission for Africa (UNECA). Available online: <http://repository.uneca.org/bitstream/handle/10855/23013/b11560812.pdf?sequence=1>. Date accessed: 15 September 2023.

**CHAPTER SEVEN**  
**THE MACROECONOMIC ENVIRONMENT OF INTERNATIONAL TRADE**  
**IN LESOTHO**

**Denis Nfor Yuni**

Department of Economics, National University of Lesotho

Email: [yunidenisn@gmail.com](mailto:yunidenisn@gmail.com)

## 7.1 Introduction

The macroeconomic environment of any economy has a significant influence on its international trade and the reverse is true. The effect of the macroeconomic environment on international trade is primarily based on two key indices: first, the fact that the outcome of international trade – balance of payment is one of the 5 main macroeconomic goals and second, the National income accounting measure of economic growth accounts for international trade of the economy. According to most economics textbooks, the ultimate goals of macroeconomics include economic growth (the most important), balance of payments, price stability, full employment, and equitable distribution of income. In addition to being stand-alone objectives of macroeconomic policy, these goals tend to have a symbiotic relationship with each other. In this symbiotic relationship, the performance of an economy in attaining price stability, full employment, equitable distribution of income and economic growth is somewhat reflective of the international trade performance of that economy. The level of importance of these goals depends on several factors that include the economic structure, the political ideology, the exchange rate regimes and the socio-cultural contexts.

The second indicator posits that the National Income Accounting that is used to compute economic growth is measured by the sum of government expenditure, investment expenditure, Consumption expenditure and net exports (export minus import) according to the expenditure approach. This means that the outcome of international trade directly contributes to the measurement of economic growth. In fact, it is a critical component of the National income accounting as it more likely expose the economy to external shocks and thus critically affect the macro economy and ultimately the economic growth. Therefore, international trade and the macro-economic environment are in tandem, such that a key aspect of understanding international trade of an economy such as Lesotho will be to understand the macroeconomic environment.

The macro-economic environment translates to the overall economic performance of that economy. Policy makers employ a wide range of macroeconomic instruments to promote macroeconomic stability and foster sustainable growth. Fiscal and Monetary policies are the standard macroeconomic policy instruments used by governments or policymakers to stabilize the macro-economy. The key fiscal policy tools include government expenditure and taxation/subsidies, while the key monetary policy tools include exchange rates, open market operation, bank reserve requirement, interest rate policy and credit policy. The executive arm of the government generally coordinates fiscal policies whereas monetary policies are managed by the central bank. Scholars such as Dolamore (2013) classify exchange rate policy as a third instrument, different from monetary and fiscal policy. This is probably due to its determination and management, which include both the central banks and the executive government.

Therefore, the ways in which a government (executive and central bank) manages these tools determine the nature of the macroeconomic environment that it gets. By extension, this has significant effects on international trade from both a domestic and a foreign perspective. For example, a report by the Texas Agricultural Extension Service posits that the fiscal and monetary policies were promoting growth rates in the U.S. economy, which increased the demand for foreign goods relative to the foreign demand for U.S. products, resulting in a trade deficit (Niles et al., 2013). Conversely, international trade can influence the macroeconomic environment in several ways. Glick (2016) opines that international trade is a vehicle that can transmit shocks/disturbances from one economy



to another by muting or amplifying the impact of fiscal and monetary policies on economic activity, thereby influencing the macroeconomic environment.

This study seeks to understand the macroeconomic environment of international trade in Lesotho. To achieve this, the paper will dissect the key macro-economic instruments that are used by policymakers to optimise the aggregate economic performance. The next section will x-ray the relationship between fiscal policies and international trade in Lesotho. This will be followed by section three, which will analyse the relationship between monetary policies and international trade in Lesotho and investigate its implications on international trade. Section four will discuss the coordination between the fiscal and the monetary policies. Sections two, three, and four will be discussed with inferences on the implications of international trade, and there will be recommendations about policy actions where necessary. The last section will be the conclusion and overall recommendations.

## **7.2 Fiscal Policies and International Trade in Lesotho**

Government expenditure, taxation and subsidies are the primary fiscal policies used in the Lesotho economy. The importance of fiscal policies in the management of the Lesotho economy cannot be over-emphasised as the National Strategic Development Plan (NSDP) II clearly states that “Lesotho’s only instrument of macroeconomic management is fiscal policy given the confines of the Common Monetary Area Agreement (CMA) agreement” (Government of Lesotho, 2021).

### **7.2.1 Government Expenditure and International Trade in Lesotho**

Government expenditure is discussed not only as a tool for economic stabilisation, but also as an indicator by which investors can gauge the government’s mind-set and political will. This section therefore analyses the government expenditure in terms of the quantity (sufficiency) of government expenditure, quality (proportions vis-à-vis priorities) and its stability efficacy in relation to international trade.

#### ***A. Sufficiency of Government Expenditure***

Over the years, the government of Lesotho has steadily increased its budget deficit. According to the World Bank (2023a), the available data show that the general government final consumption expenditure as a percentage of GDP for Lesotho has increased from an all-time low of 8.1% in 1970 to an all-time high of 43.5% in 2009. It then dropped slightly to 36.4% in 2020, which, however, is still relatively high when compared to the world average of 17.8%, to the Sub-Saharan African (SSA) average of 13%, as well as to that of other peer countries such as Eswatini (22.7%), Benin (11.4%), Ethiopia (9.1%) and Tanzania (7.7%) in the same year. In fact, for countries with available data in 2020, it is only second to Libya in Africa.

This geometric rise is also reflected in the increasing budget deficits over the years. The budget deficit of Lesotho has increased from 8 million USD (representing 2.03% of GDP) in 1982 to 112 million USD, representing 4.4 % of GDP in 2021 (Countryeconomy, 2023). This demonstrates the fiscal pressure that the economy is facing to meet the required expenditure vis-vis its GDP. Simply put, the money that the government desires to implement its goals and vision with is increasingly higher than the amount that is being generated in the economy as national income.

The implications for this on international trade is huge. A potent and forward-looking international trade is one that seeks to improve on exports via its comparative advantages. Today, it has become easier to situate oneself in global value chains, which reduce initial setup cost for the overall

investment initiative and sustains supply of raw materials as well as the market. An economy that sets policies aimed at improving exports by promoting local production either by encouraging local producers or enticing foreign investors invariably increases the income in the economy.

Increase in exports translates to an increase in the revenue from foreign economies as proceeds for goods sold. The increase in revenue leads to a balance of payment surplus, which basically increases national income and the GDP. The idea of promoting growth that is export-oriented is often referred to as export-led growth in the literature. The Lesotho economy needs to put in conscious efforts that design export-led growth, given the fiscal pressure it is currently facing. The need to raise income via export-led growth is even more imperative given the current structure of revenue sources of the nation.

The national income is largely driven by contributions from the countries in the Southern African Customs Union (SACU). Due to the integrated nature of their economies, the SACU member countries employ a defined revenue-sharing formula to redistribute custom and excise revenues annually. “In Lesotho, these revenues nearly doubled from M5.4 billion in 2022/23 to M10.1 billion in 2023/24, and account for over 40% of total revenues and grants in the new budget”(Fraser & Hadley 2023). This means that, in spite of the fiscal pressure of excess expenditure when compared to revenue, the revenue is largely (40% in 2023) driven by the SACU contributions in which it has little control over and is subject to huge fluctuations. The trend shows that there is an inverse relationship between the SACU revenue and budget deficit in Lesotho for most years, hence there is a greater need for a more stable and functional source of revenue, which could be attained with export-led growth.

### ***B. Distribution of Government Expenditure***

According to the Lesotho budget speech of 2023/2024, the approved total expenditure for the fiscal year 2022/2023 was M23.4 billion (Matlanyane, 2023). Of this, M16.3 billion which constitutes about 70% of the budget was allocated for recurrent expenditure, while M6.7 billion was for investment spending. In the 2023/2024 fiscal year, the budget for total expenditure was M24.1 billion, of which the recurrent budget was M17.8 million (constituting about 74% of the total budget) and M6.3 billion was for the capital budget. The patterns serve as examples of the increasing trend of recurrent revenue whilst capital expenditure dwindles.

These statistics highlight two key implications for international trade. The first supports the earlier inference that the Lesotho economy is in dire need of export promotion to increase revenue from foreign sources. Another implication points to the need for promoting export of tertiary products such as services. This can supplement the agricultural sector and the relatively low manufacturing sector. This is especially because promoting exports in the manufacturing sector would require huge capital expenditure especially when the economy is already suffocating with the huge recurrent expenditure. Fortunately, Lesotho has an incredibly huge potential for tourism and hospitality industry that could significantly boost service exports.

The dwindling budget for capital expenditure has a direct effect on the budget for infrastructure. In the 2023/2024 fiscal year, the government of Lesotho allocated M3.2 billion (constituting about 51.6% of the capital expenditure but only 13.3% of total expenditure budgeted) of the meagre 6.3 billion capital budget for infrastructure programmes. As a result, Lesotho's ranking in terms of infrastructural development has declined over the years. According to the Honourable minister of finance and development planning, ‘Lesotho is ranked 120 out of 140 countries in terms of

infrastructure development, which reflects low national investment competitiveness' (Matlanyane, 2023). This in part reflects Lesotho's rank in terms of ease of doing business, which deteriorated from 106<sup>th</sup> in 2018 to 122<sup>nd</sup> in 2019 among 190 economies (World Bank, 2023b).

This has two key implications for investors interested in international trade in Lesotho. On the one hand, this scenario presents a glaring opportunity for investors who can brave the odds to invest in Lesotho. This is because the economy is likely to have relatively fewer investors and so keying into the long-term strategic plan of the government can create profitable opportunities for trade. On the other hand, the limited funds for capital investment implies that the government is also open to alternative means of purchasing and installing capital-intensive equipment or construction. As a result, imports from investors that dealing in these will be welcomed in Lesotho.

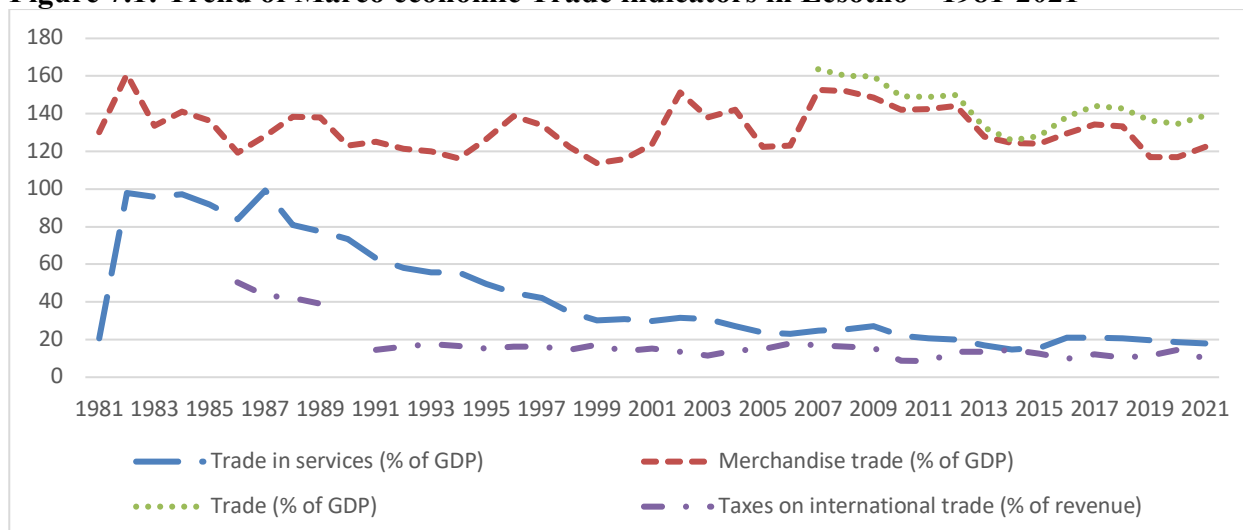
### ***C. Stability Efficacy in relation to International Trade***

Lesotho's macro-economic environment, like many other developed and developing countries, has been exposed to major global shocks. In the last two decades, three such global shocks stand out: the 2007-2009 global financial crisis, the Covid-19 pandemic and the Russian-Ukraine war. Though empirical literature is not conclusive on their impact on the Lesotho economy, there is some descriptive evidence that key macroeconomic indicators were affected by these shocks. For example, GDP annual growth rate hit its lowest point of -5.6% in the last 4 decades in 2020 during the Covid-19 pandemic; meanwhile GDP per capita reached its lowest point of 939.5USD in the last decade in 2020 (World Bank, 2023c).

However, the effect on trade indicators was less visible. In 2019, trade as a percentage of GDP and merchandise trade as a percentage of GDP fell slightly. In addition, trade in services as well as the taxes on international trade as a percentage of revenue show an oscillatory trend from 2011 to 2021 with no visible effect in the shock years. Also, the trends for all four indicators does not show an obvious decline during the global financial crises and during the Russian-Ukraine war.

According to the macroeconomic trend depicted in Figure 7.1, if we consider the three major global shocks of the last two decades, international trade indicators appear to be relatively stable, even when there was a downturn on the GDP during Covid-19. This is not surprising given that the government's macroeconomic response to the Covid-19 economic shock was to employ large-scale fiscal measures, supported by targeted monetary easing to ease the shock to jobs, reduce layoffs and guarantee minimum living standards, especially for vulnerable population groups (United Nations, 2020). This suggests that the macroeconomic environment in relation to trade is stable, making investments less risky.

**Figure 7.1: Trend of Marco economic Trade indicators in Lesotho – 1981-2021**



**Source:** Authors' computation of World Bank data (2023d)

### 7.2.2 Tax and Subsidies in Lesotho and their Implications for International Trade

Lesotho's taxation policies are moderate in terms of the number of taxes imposed and the volume of tax required. The number of taxes in Lesotho according to the World Bank (2023b) was 32 in 2019. This is lower than the Sub-Saharan average of 37 and its peers such as Eswatini (33), Botswana (34), and Tanzania (59). In terms of the volume of tax, we consider for example the Value Added Tax (VAT) rate. The Value Added Tax Act No. 9 of 2001 established the use of the VAT from the 1<sup>st</sup> of July 2003. The Act posits that 0% should be charged on goods and services exported from Lesotho; a 10% tax on the supply of electricity and a 15% tax on all other taxable supplies of goods and services (PwC South Africa, 2023). Meanwhile, the VAT is 15% in Eswatini 18% in Tanzania, and 19.5% in Cameroon (PWC, 2023).

The other tax policies include the company income tax (10% for manufacturing companies and commercial farming and 25% for other companies), personal income tax (employees and sole traders have a progressive two-system rate of 20% for income amounts less than 67,440 and 30% for above), fringe benefits tax (40%), and withholding tax of 5% for resident contractors, 10% for non-resident contractors and 7.5% for non-resident technical services – residents of South Africa only (Revenue Services Lesotho, 2022). The Revenue Service Lesotho (formerly Lesotho Revenue Authority) is the body that regulates tax laws and compliance requirements in Lesotho. Most of Lesotho's other tax rates also compete favourably when compared to those of other countries in the region and on the continent.

On the other hand, Lesotho's expenditure on government subsidy has increased at an increasing rate between 1990 and 2020 relative to the increase in household expenditure during the same period. According to the Lesotho budget speech for the fiscal year 2020/2021, subsidies increased from M467, 300,000 in 2003 to M4, 770,680,000 in 2020 (Majoro, 2020). Similarly, due to the Covid-19 pandemic, Government provided salary subsidies to 45,000 factory workers. According to the World Bank (2023b), the subsidies and other transfers as a percentage of expenses in Lesotho for 2020 are the highest (32.67%) compared to other developing countries such as Botswana (20.31%), Malawi (23.14%), Equatorial Guinea (7.47%), Burkina Faso (24.4%), Morocco (32.59%), Mozambique (14.68%), Ghana (14.18%) and Zambia (11.83%).

Lesotho's tax and subsidy regimes create an environment that promotes investment and business growth. Relative to other countries in the region and in SSA at large, the taxes are comparatively accommodative. In addition, given the strategic location of the country – in the belly of South Africa, it could be a strategic investment destination for the Southern African regional market. The current disposition of the Lesotho government is to provide subsidies, not only for oil, but also across several goods, this explains why food subsidies make up a significant portion of the budget (Central Bank of Lesotho Report, 2008). The Lesotho government and aid agencies in Lesotho subsidize petroleum products, agricultural inputs (Sophonea, 2021), fertilisers, agrochemicals, seeds, pesticides and herbicides (Sophonea, 2021; Famine Early Warning System Network, 2022), the textile industry (The Post, 2022) and export products from Lesotho to the US under the African Growth and Opportunity Act (AGOA) are textiles (Sophonea, 2021).

These subsidies have made investment in certain areas lucrative and the government will definitely welcome supplies with competitive prices on these items. The subsidies on specific goods and services suggests that their prices will be lower in the international market and will therefore be more competitive. In addition, the AGOA has made exports to the USA easier and so firms that target such goods and services for export from Lesotho to the USA will be gaining on both sides. For example, production in the horticulture industry for export to the USA could be one of such viable businesses that will accrue huge yield in the short and middle period.

### **7.3 Monetary Policies and International Trade in Lesotho**

The previous section discussed the fiscal policies, which appear to be more potent in the Lesotho economy due to the CMA agreement, that constraints monetary policy. Nevertheless, the current system and the indicators of monetary policy in Lesotho have noteworthy implications on the economy in general and on international trade in particular. Matlanyane (2005), who posits that the effectiveness of fiscal policy is not exclusive, and monetary policy can still be used to some extent, supports this assertion. The key monetary policies that are discussed in this section based on their relevance to international trade include exchange rate, money supply and interest rate.

#### **7.3.1 Exchange Rate System and International Trade**

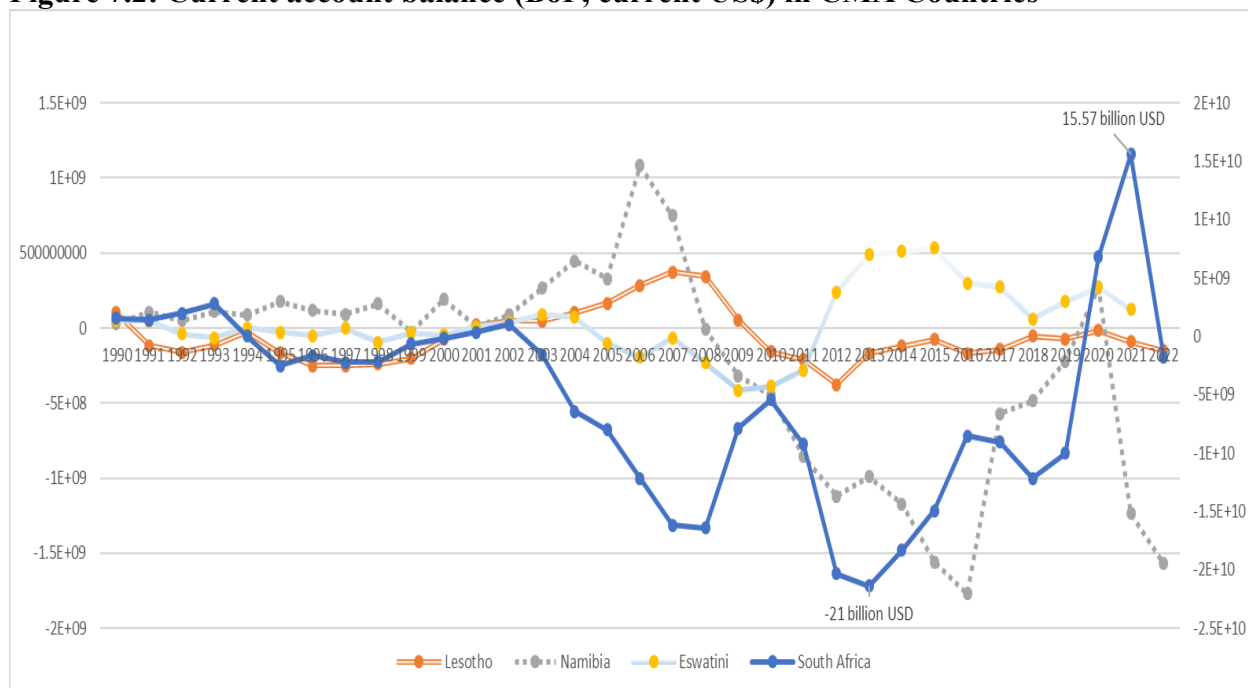
The fixed exchange rate system has been Lesotho economy's adopted exchange rate policy over the years. The nature of the exchange rate system acts as a major determinant of the stability conditions of an economy, and to a large extent influences international trade in various ways. Floating the exchange rate systems require sophistication in its management to maintain key economic indicators and promote trade and ultimately growth. Smaller economies have the tendency of fixing their exchange rates to that of more dynamic and vibrant economies. For example, Lesotho's exchange rate is fixed to that of South Africa, which is trusted to manage the exchange rate better. Exchange rate fluctuations, such as rise in exchange rate translate to an increase in export prices, making exports less competitive relative to imports and so reducing balance of trade in a country.

The Loti is pegged to the South African Rand at 1:1 based on the CMA. The CMA is a monetary union comprises Lesotho, South Africa, Namibia, and Eswatini. It is related to the Southern African Customs Union (SACU). The main goal of the CMA is to adopt the South African Rand as legal tender to promote common trade and equitable economic development for member countries. These countries are however allowed to use their own currency, as is the case with the Lesotho Loti with

ant exchange that is at par with the Rand. The CMA also implies that the foreign exchange rate regulations as well as the monetary policies are largely controlled by the South African Reserve Bank.

For a smaller economy like that of Lesotho, this exchange rate agreement has been beneficial in that it absolves the economy from the burden of trying to manage the economy, and it opens it up to the larger market of South Africa and the region in terms of trade. However, member countries can be exposed to volatility in the international currency markets. Nevertheless, the trend in the CMA records a clearly different scenario as shown in the figure below.

**Figure 7.2: Current account balance (BoP, current US\$) in CMA Countries**



**Source:** Authors' computation of World Bank data (2023c)

For example, when South Africa recorded its lowest current account balance in 3 decades in 2013 with -21 billion USD, Eswatini recorded one of its highest current account balance of about 487 million USD in 2013. Similarly, when South Africa recorded its highest current account balance since 1990 in 2021 of about 15.57 billion USD, Namibia recorded one of its lowest current account balance of about -1.2 billion USD. Interestingly, though Lesotho has recorded a negative current account balance since 2010, its trend is relatively more oscillatory. While we acknowledge that there is a lag between shocks and response to other economies, the descriptive analysis of the trend does not suggest a strong influence of the South African current account balance on that of the other member states. This could be explained by the fact that most of these countries trade largely with South Africa and are therefore insulated to some extent from the external volatility that South Africa may experience.

The implications for international trade in Lesotho are obvious. First, the current account balance is relatively stable and serves for prediction and planning by investors. This is especially the case for investors within the CMA zone whose exposure to external shocks is limited. Second, the negative current account balance for Lesotho since 2010 has placed the Lesotho government in a positive disposition to investors who intend to produce in Lesotho for exports. It also means that investors outside the CMA region are comfortable with trading with South Africa, and can as well trade with Lesotho, which is hungrier for foreign investment and relatively more stable.

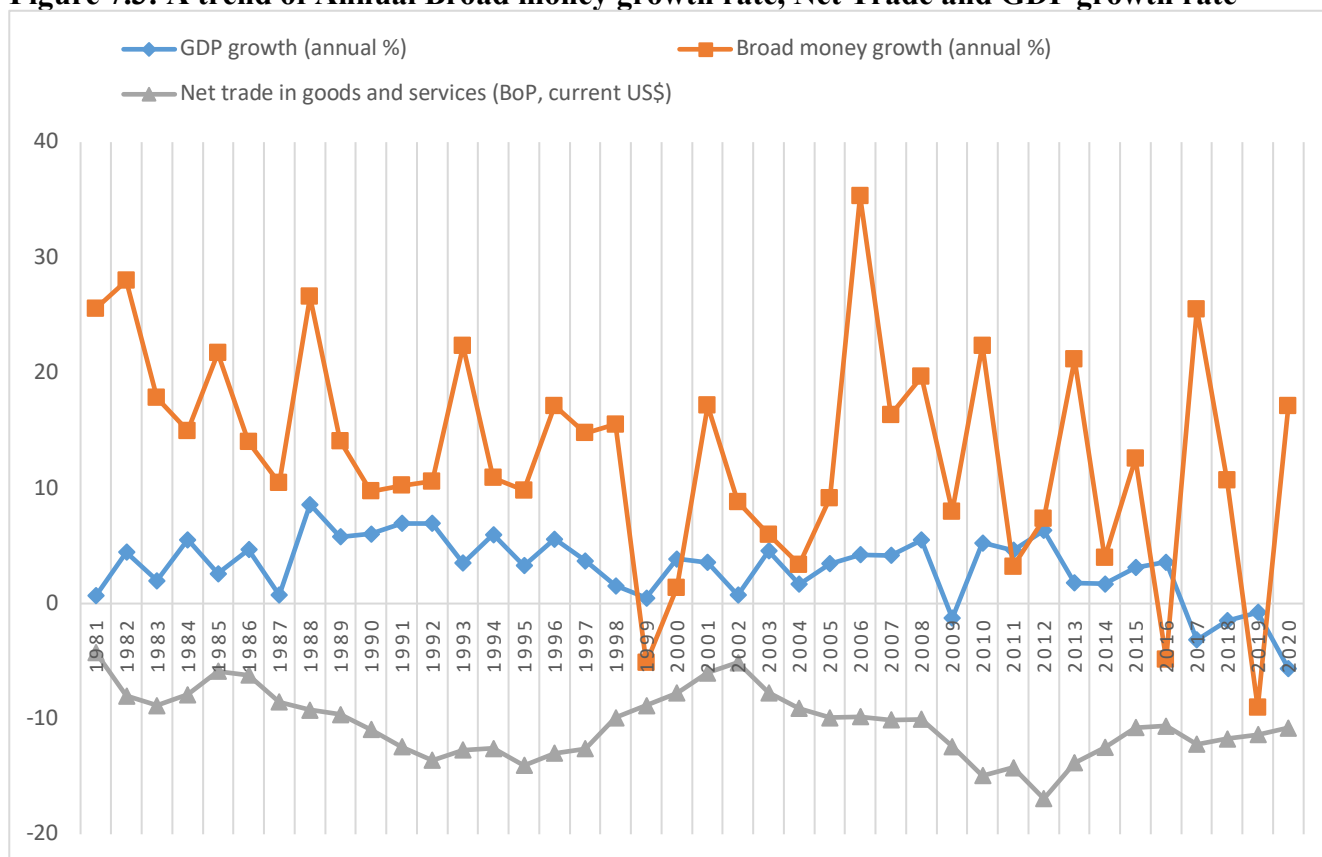
### 7.3.2 Money Supply and International Trade

The CMA agreement could be interpreted as a way of Lesotho surrendering its money supply policy to the reserve bank of South Africa. However, like many currency boards, the country is required to maintain foreign reserves equivalent to the total amount of maloti currency that it issues. The CBL reserves a coverage ratio above 100%, which is greater than the expectation of a normal currency (Mu, 2022). Mu (2022) further posits that this is critical as it helps the CBL to avert the likelihood of a self-fulfilling confidence crisis whereby cash and deposit holders of maloti would jointly try to exchange their liquid assets into the South African rand to protect against a depreciation.

Furthermore, the agreement improves the credibility of the macroeconomic policies by the CBL as it isolates the monetary policy from possible political interference. Both outcomes improve the confidence on the loti and its parity with the rand further serving as a guarantor in any event. This is good for investor confidence and planning as it minimises one of the major risks that have been experienced by investors in other climes. Therefore, this arrangement is in the interest of international trade between Lesotho and South Africa, Southern Africa and the rest of the world.

Equally important is the World Bank (2022b) statistics, which show that, the annual growth rate of broad money supply (M2) has often responded in a positive way to a fall in growth rates for most years besides 1999 and 2019. For example, Figure 7.3 shows that the annual growth rate of broad money supply (M2) increased from 3.2% in 2011 to 17.1% in 2020. During the same period, annual GDP growth fell from 4.6% to -5.6%. This suggests that money supply is responding well to changes in the growth rates, which is likely induced by fiscal policy measures.

**Figure 7.3: A trend of Annual Broad money growth rate, Net Trade and GDP growth rate**



**Source:** Authors' computation of World Bank data (2023b)

The relationship between net trade of goods and services and money supply is also interesting. Even though, the country has recorded negative net trade in goods and services since 1981, the trend shows that it responded positively to the lowest points of Broad money growth. Specifically, the trend for net trade in goods and services is increasing when broad money growth reaches its least point of -8.99% in 2019 and the next lowest point of -5.14% in 1999 over the 40-year period. This shows that sudden contractions of money supply may not necessarily have a negative effect on International trade. Therefore, the policies that manage the money supply of the Lesotho economy does not expose trade to shocks according to the descriptive illustration above. This should further boost investor confidence in the macro-economy environment of international trade, especially in relation to money supply.

### **7.3.3 Interest Rate and International Trade**

The interest rate trends in Lesotho largely reflect those in South Africa, except for a small spread (Mu, 2022). Recently, Lesotho's central bank raised its main interest rate for the second time by 50 points in February 2022, following a 25-basis point's rise in November 2021. According to the CBL this was done to "ensure that the domestic costs of funds remain aligned with the rest of the region." This is consistent with the spirit of the CMA agreement. Although the U.S. Department of State (2023) opines that the interest rate in Lesotho is high by global standards, the 2021 lending interest rates in Lesotho of 8.2% remains relatively low. It is lower than those in countries outside the SACU region such as Kenya (12.1%), Nigeria (11%), Malawi (23.9%), Zimbabwe 45.5% and are probably lower than the SSA average for countries with available data (World Bank, 2023e).

The interest spread for Lesotho for 2022 is, however, the highest in the CMA. For 2022, the interest rate spread (lending rate minus deposit rate, in percentages) for Lesotho is 7.3%, which is higher than that of South Africa (3.7%), Eswatini (6%) and Namibia (4.9%). Although Mu (2022) argues that the interest rate spread or differential in Lesotho relative to CMA member countries is due to the country risk. We note that it could rather be a reflection of the profit margin by the banking sector, which could be justified by the relatively low turnover. Moreover, this rate is higher than that of the SSA average of 8.1% in 2020 when compared to 7.1% in 2020 for Lesotho. This implies that, though the interest rates are high in the CMA region, they are competitively low in the SSA region and stable too as they have to converge with those of the monetary union. However, there is a need for banks to reduce the interest rate spread in order to improve Lesotho's competitive position in the region for international trade.

An empirical study by Khoabane (2020) shows that there is a weak monetary transmission of South African monetary policy to output and inflation through the exchange rate, credit and interest rate channel. In addition, he posits that there is strong transmission of SA's monetary policy decisions to Lesotho's short-term interest rates. This is expected given that Lesotho adopts a fixed exchange rate system with South Africa, thus this shows that the economies are in tandem and internally stable relationship. This assertion is in line with the 2008 report by the World Trade Organisation on Lesotho and those presented in Mu (2022).

Worthy of note are some key remarks by international agencies on the interest rate in Lesotho relative to international trade. These include the U.S Department of Commerce (2021)'s observation that the central bank of Lesotho does not give instructions on how the interest rates or the spread of services are offered, which minimises political risk for banking investment. Similarly, the International Monetary Fund (IMF) equally acknowledges that the Lesotho banking sector is predominantly



foreign-owned and is highly liquid and well-capitalized (IMF, 2023). Although it records limited credit to micro-, small-, and medium-sized enterprises, foreign investors are able to get credit on the local market (U.S. Department of State, 2023). These highlights equally present Lesotho as a good investment destination with huge potential for international trade.

#### **7.4 Macroeconomic Policy Coordination and Implications for International Trade**

Coordinating fiscal and monetary policies plays a critical role in achieving economic stability and attaining sustainable economic growth. The primary objective of the Central Bank of Lesotho as stipulated in the CBL Act of 2000, is to achieve and maintain price stability to support balanced macroeconomic development of Lesotho. Therefore, the Central Bank of Lesotho uses a combination of monetary tools such as interest rates, reserve requirements, and market operations to influence money supply and credit conditions in the economy. On the other hand, Lesotho's Ministry of Finance and Development planning is responsible for formulating the country's fiscal policy. Its primary objective is to maintain fiscal sustainability, promote economic growth and reduce poverty and inequality. To achieve this, it largely uses the budget to allocate resources that reflect its fiscal policy decisions.

To promote macroeconomic policy coordination between the ministry and the CBL, the Lesotho government has established a Monetary Policy Committee (MPC) that is made up of representatives from the CBL and the Ministry of Finance and Development Planning. The MPC meets regularly to discuss monetary and fiscal policies in light of the prevailing domestic and external economic conditions and forecast. It helps both arms to harmonise policy actions in order to minimise overlapping or contradicting policy stands. Both institutions equally undertake comprehensive macroeconomic analysis to coordinate the monetary and fiscal policy decisions on the economy.

The benefits of a healthy combination is obvious. As stated above, it improves policy effectiveness by combining fiscal and monetary policy tools to achieve desired outcomes. In Lesotho, macroeconomic policy coordination faces numerous challenges. First, is the limitation of policy tools that are brought about by the limited policy autonomy and over-reliance on the macro economy of South Africa. The second constraint is the limited fiscal constraints due to the low government revenue and too much dependence on SACU receipts. Third, there is insufficient real-time information flow between the Central Bank and the Ministry. Such information asymmetry or data exchange delays can hamper the design of coherent policies and limit the achievement of desired outcomes. Other challenges to comprehensive macroeconomics can be identified as political inference in decision-making and technical capacity constraints.

Interest rates adjustment based on monetary and fiscal policy actions and coordination are critical in determining how investors react in the economy. Functional coordination efforts will in general, result in a more stable macroeconomic environment and increased investor confidence in the system. This has a direct impact on international trade actors who are always in search of safe havens. As previously stated, the management of external shocks on international trade indicators shows the satisfactory efforts of the coordination efforts of both institutions.

#### **7.5 Conclusion**

The macroeconomic environment of any economy is critical to international trade. It gives the first impression to an intending investor on whether to invest or not. This paper attempts to discuss Lesotho's macroeconomic architecture with the view of highlighting its implications on International

Trade. The country's macroeconomic outlook highlights high points that need to be sustained and low points that need to be improved for Lesotho to have a trade-friendly macroeconomic outlook.

On the bright side, indicators of international trade in Lesotho remained relatively stable during the three main global shocks of the last two decades, even during periods when GDP fell. This suggests that the macroeconomic environment in relation to trade is stable, making investments less risky. Lesotho's tax and subsidy situation creates an environment that promotes investment and business growth. Taxes in Lesotho are relatively accommodative in comparison to other countries in the region and in SSA as a whole, and given its strategic position – in the belly of South Africa, it could be a strategic investment destination for the Southern African regional market. The subsidisation of petroleum products, agricultural inputs, fertilisers, agrochemicals, seeds, pesticides and herbicides, textile industry and export products make investment in this sector profitable, and the government will definitely welcome supplies with competitive prices on these items. Lesotho's relatively stable current account balance allows investors to predict and plan. Furthermore, interest rates in the SSA region are competitively low and stable, as they have to converge with those of its monetary union.

In contrast, the study shows that Lesotho's general government final consumption expenditure as a percentage of GDP is only second to Libya in Africa for countries with available data in 2020. This is evidence of the severe fiscal pressure that the Lesotho economy currently faces. Also, the 2022/2023 and 2023/2024 budget allocated 70% and 74% for recurrent expenditure respectively. This is not sustainable, and the limited capital will not fund the enabling environment that is needed for international trade. Furthermore, the government allocates only 13.3% of the budget for infrastructure programmes, resulting in the low ranking of Lesotho in terms of infrastructural development and investment competitiveness.

The study recommends the Lesotho government to promote export-led growth-oriented policy framework, improve favourable infrastructure for international trade by increasing capital allocation and improve sensitisation of competitive tax rates in the region to attract investors. The study further recommends that government to encourage macroeconomic coordination that sustains the stability of interest rate and reduce the interest rate spread by banks to improve Lesotho's competitive position in the region for international trade. Finally yet importantly, the paper recommends investors who deal in alternative means of purchasing and installing capital-intensive equipment or construction to initiate moves to propose imports of it to the Lesotho government.

## References

- Countryeconomy, (2023). Lesotho Government budget deficit.  
<https://countryeconomy.com/deficit/lesotho>.
- Dolamore, R. (2013). The tools of macroeconomic policy—a short primer. Commonwealth of Australia.  
[https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_departments/Parliamentary\\_Library/pubs/BriefingBook44p/MacroeconomicPolicy](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/BriefingBook44p/MacroeconomicPolicy).
- Famine Early Warning System Network, (2022). Lesotho Key Message Update: Crisis (IPC Phase 3) outcomes are expected to emerge as market dependence, and prices increase.

<https://fews.net/sites/default/files/generated-reports/2023/ls-key-message-update-2022-09-1680193333.pdf>

- Fraser, A., & Hadley S. (2023). National budget trends in the Southern African Customs Union: struggling for control? Retrieved from: <https://odi.org/en/insights/national-budget-trends-in-the-southern-african-customs-union-struggling-for-control/>.
- Glick, R. (2008). Macroeconomic Effects of International Trade. In: The New Palgrave Dictionary of Economics. Palgrave Macmillan, London. [https://doi.org/10.1057/978-1-349-95121-5\\_2485-1](https://doi.org/10.1057/978-1-349-95121-5_2485-1)
- Government of Lesotho, (2021). National strategic Development Plan II - 2018/19 - 2022/23: In Pursuit of Economic and Institutional Transformation for Private Sector-led Jobs and Inclusive Growth.  
Retrieved from: <https://www.gov.ls/wp-content/uploads/2021/06/National-Strategic-Development-Plan-II-2018-19-2022-23.pdf>.
- International Monetary Fund (2023). Kingdom of Lesotho 2023 article IV consultation - press release; and staff report. IMF Country Report No. 23/268
- Central Bank of Lesotho (2022). Lesotho raises rate 2nd time but cuts growth outlook. Central Bank News February 1<sup>st</sup> 2022. <https://www.centralbanknews.info/2022/02/lesotho-raises-rate-2nd-time-but-cuts.html>
- Khoabane, S. (2020). Monetary Policy Transmission Channels in Lesotho. Central Bank Of Lesotho, 5 (1).  
[https://www.centralbank.org.ls/images/Publications/Research/Bulletins/December\\_2020/Monetary\\_Policy\\_Transmission\\_Channels\\_in\\_Lesotho\\_-\\_By\\_Selloane\\_Khoabane\\_-\\_2020\\_December\\_CBL\\_Research\\_Bulletin\\_-\\_Volume\\_5\\_Issue\\_1.pdf](https://www.centralbank.org.ls/images/Publications/Research/Bulletins/December_2020/Monetary_Policy_Transmission_Channels_in_Lesotho_-_By_Selloane_Khoabane_-_2020_December_CBL_Research_Bulletin_-_Volume_5_Issue_1.pdf)
- Majoro, M., (2020). Budget speech to the parliament of the kingdom of Lesotho for the 2020/21 fiscal year. Retrieved from: <http://www.homeaffairs.gov.ls/wp-content/uploads/2020/03/Budget.pdf>
- Matlanyane, R. A. (2005). A Macroeconometric model for the economy of Lesotho: policy analysis and implications. Being a PhD thesis of the University of Pretoria.  
<https://repository.up.ac.za/bitstream/handle/2263/24006/Complete.pdf?sequence=12>.
- Matlanyane, R., (2023). Parliament of the Kingdom of Lesotho Budget Speech to the Parliament of the Kingdom of Lesotho for the 2023/2024 Fiscal Year: From Reconstruction and Recovery to Growth and Resilience.  
<http://www.finance.gov.ls/documents/Budget%20Formulation/budget%20speeches/Budget%20Speech%20Final%202023-24.pdf>
- Mu, Y., (2022). Policy Coordination in Lesotho: Kingdom of Lesotho. International Monetary Fund, 2022: 003. ISBN: 9798400226601, ISSN: 2958-7875. DOI: <https://doi.org/10.5089/9798400226601.018>
- Niles, K., Orden, D., Rosson, P., & Benson G., (2013). Macroeconomic Policy Impacts on Exchange Rates and Trade. Texas Agricultural Extension Service. RM6-6.0, 5-98.  
<https://agecoext.tamu.edu/wp-content/uploads/2013/10/rm6-6.pdf>

- PwC South Africa, (2023). Lesotho. <https://www.pwc.co.za/en/publications/vat-in-africa/lesotho-overview.html>
- Revenue Services Lesotho, (2022). Tax Rates. Retrieved from: <https://www.rsl.org.ls/tax-rates>.
- Sophonea, T., (2021). Parliament of the Kingdom of Lesotho Budget Speech to the Parliament of the Kingdom of Lesotho for the 2021/22 Fiscal Year: “Navigating the New Norm towards Transformation and Economic Recovery”. [https://www.cabri-sbo.org/uploads/bia/Lesotho\\_2021\\_Approval\\_External\\_BudgetSpeech\\_MinFin\\_SADC\\_English.pdf](https://www.cabri-sbo.org/uploads/bia/Lesotho_2021_Approval_External_BudgetSpeech_MinFin_SADC_English.pdf)
- The Post (2022). Shareholders fight over M60 million subsidy. Retrieved from. <https://www.thepost.co.ls/local-news/shareholders-fight-over-m60-million-subsidy/>
- U.S Department of Commerce, (2021). Lesotho - Country Commercial Guide: Trade Financing. <https://www.trade.gov/country-commercial-guides/lesotho-trade-financing>
- U.S. Department of State, (2023). 2023 Investment Climate Statements: Lesotho. <https://www.state.gov/reports/2023-investment-climate-statements/lesotho/>
- United Nations (2020). Lesotho COVID-19 Socioeconomic Response Plan. <https://lesotho.un.org/sites/default/files/2021-05/Lesotho%20Socio%20Economic%20Response%20Plan.pdf>
- World Bank (2023a). General government final consumption expenditure (% of GDP). <https://data.worldbank.org/indicator/NE.CON.GOV.T.ZS>
- World Bank (2023b). Ease of doing business rank (1=most business-friendly regulations). <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ>.
- World Bank (2023c). Current account balance (BoP, current US\$) - Lesotho, South Africa, Eswatini, Namibia. <https://data.worldbank.org/indicator/BN.CAB.XOKA.CD?locations=BW-LS-ZA-SZ-NA>
- World Bank, (2023d). Lesotho. <https://data.worldbank.org/country/lesotho>.
- World Bank, (2023e). Lending interest rate (%). World Bank Indicators. Retrieved from: <https://data.worldbank.org/indicator/FR.INR.LEND>
- WTO (2008). Kingdom of Lesotho. [https://www.wto.org/english/tratop\\_e/tpr\\_e/s222-02\\_e.doc](https://www.wto.org/english/tratop_e/tpr_e/s222-02_e.doc).

**CHAPTER EIGHT**  
**LESOTHO SERVICES SECTOR AND IMPLICATIONS FOR**  
**INTERNATIONAL TRADE**

**Mamello Nchake**

Stellenbosch University, South Africa

Email: mnchake@gmail.com

## 8.1 Introduction and Background

The recognition of the services sector in the economy as a potential key driver of economic growth and structural transformation is a significant perspective for African countries. This is also consistent with global economic trends and the 2030 Sustainable Development Goals (UNCTAD, 2022). The services sector has been the key driver for growth since the 1990s and is currently the world's largest employer (Nayyar and Davies, 2023). In 2022, the sector accounted for more than 70 per cent of global GDP, 40 percent of total global employment and nearly half (46 per cent) of GDP in low-income countries (World Bank/WTO, 2023). Services represent a diverse range of activities, including finance, healthcare, education, tourism, information technology among others. By expanding the services sector, countries can diversify their economies, thus reducing dependence on a single industry or sector. Services are a significant source of income for individuals and businesses, where many high-value-added services, such as finance and technology, offer opportunities for well-paying jobs and income generation (Nayyar and Davies, 2023). The sector also plays a critical role in improving productivity and efficiency in other sectors of the economy. As a labour-intensive sector, services related jobs employed more than a quarter (35 per cent) of Lesotho's total workforce in 2021, majority of whom were female (UNCTAD, 2022). Expanding this sector can therefore increase labour force absorption and reduce unemployment. Services are interconnected with primary and secondary sectors (agriculture and manufacturing). Within the primary sector, agricultural services are essential for crop production and livestock farming. Activities such as irrigation, pest control, farm machinery maintenance, and agricultural extension services help improve agricultural productivity and sustainability. In the secondary sector (manufacturing), services are required at various stages of the production process, including research and development, quality control, marketing, and distribution services. These can support product innovation and process improvements, expand customer and market reach. Strengthening linkages between services and these sectors can promote inclusive growth and enhance value chains competitiveness in global markets (UNCTAD, 2023). For these reasons, the services trade, including business process outsourcing, professional services, and digital services, has become an essential component of globalization. Considering many developing countries, such as Lesotho, services trade represents an avenue for participating in international trade and accessing global markets. Emphasizing services trade and strengthening the services sector's linkages with other economic activities can thus contribute to sustainable development and enhance a country's competitiveness in the global economy.

Box 1 provides an overall classification of services in Lesotho (as also covered under the General Agreement on Trade in Services, GATS).

**Table 8.1: Main services sectors under GATS**

<ul style="list-style-type: none"><li>❖ Business services and professional services<ul style="list-style-type: none"><li>▪ Accountancy services</li><li>▪ Advertising services</li><li>▪ Architectural and engineering services</li><li>▪ Computer and related services</li><li>▪ Legal services</li></ul></li></ul>	<ul style="list-style-type: none"><li>❖ Construction and related services</li><li>❖ Distribution services</li><li>❖ Education services</li><li>❖ Energy services</li><li>❖ Environmental services</li><li>❖ Financial services</li><li>❖ Health and social services</li></ul>
--	---

<ul style="list-style-type: none"> <li>❖ Communication services <ul style="list-style-type: none"> <li>▪ Audiovisual services</li> <li>▪ Postal and courier</li> <li>▪ Express mail services</li> <li>▪ Distribution services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>❖ Tourism services</li> <li>❖ Transport services <ul style="list-style-type: none"> <li>▪ Air transport</li> <li>▪ land transport services</li> <li>▪ Maritime transport services</li> <li>▪ Service auxiliary to all modes of transport</li> </ul> </li> </ul>
--	--

*Source: World Trade Organisation services brochure (2015)<sup>25</sup>*

Lesotho is a small open economy strategically located within the larger and more sophisticated economy of South Africa. Historically, trade patterns have been largely influenced by the country's geography, economic activities, and historical developments. Before European colonisation, Lesotho was inhabited by various indigenous groups engaged in subsistence agriculture and pastoralism. Barter and the exchange of goods within local communities and with neighbouring groups were the main forms of trade. Most products that were traded then included livestock, grains, textiles, and handicrafts, with limited services sector activities. During the 19th century, Lesotho became a British protectorate where international trade was largely influenced by British colonial policies. It was during this period that the British encouraged agricultural production of wool and facilitated labour migration of mine and farm workers into South Africa. Although not a traditional service, labour migration has since become an essential part of Lesotho's economic landscape, with remittances from Basotho workers becoming a significant source of Lesotho's foreign labour income. These remittances remain a lifeline for many families and communities, contributing significantly to the country's growth and development, providing financial support to households, and improving overall living standards (Sekantsi, 2018). According to 2022 World Bank indicators, remittances account for over 20 per cent of Lesotho GDP and continue to play a vital role in the service sector and the overall economy.

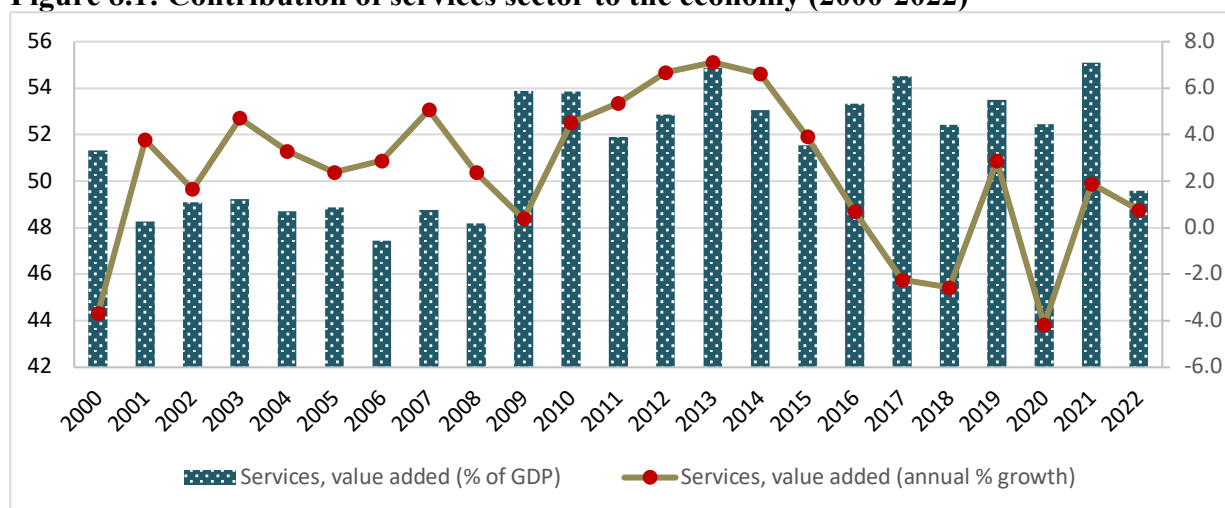
Lesotho began to experience a significant shift in its economic structure in the 1980s and 1990s, through policies that promote industrialisation and economic diversity. A notable development of the textile and garment manufacturing industry, while largely driven by preferential trade agreement including the African Growth and Opportunity Act (AGOA) with the United States, became a significant part of Lesotho's services sector. Recently, significant efforts have been made to diversify the economic production and export structure from its narrow base towards promotion services sector, commercial agriculture, and value addition in manufacturing. Lesotho's financial services sector, for instance, which includes banking and insurance, has evolved overtime. While not as prominent as the textile industry, these services have contributed to Lesotho's economic diversification and services trade. Technology and telecommunications have shown some notable improvements, but limited coverage of reliable and high-speed internet have constrained the contribution of this industry on the development of services sector. A study commissioned by the Lesotho Communication Authority (LCA) and the International Telecommunication Union (ITU) in 2022 found that while mobile phone penetration in Lesotho was at 78.65%, half of the Basotho population in urban areas still did not have access to good quality internet and 83% of rural dwellers were still not using internet at all.

<sup>25</sup> [https://www.wto.org/english/thewto\\_e/20y\\_e/services\\_brochure2015\\_e.pdf](https://www.wto.org/english/thewto_e/20y_e/services_brochure2015_e.pdf)

## 8.2 Overview of services sector in Lesotho

Services contribute significantly to Lesotho's economy, accounting for more than 60 per cent of GDP in the 1990s, though it has marginally declined to 55 per cent, over the last two decades due to the expansion of industry (UNCTAD, 2018). A high contribution from the service sector can indicate a growing or developing economy, as services become increasingly important as economies mature. However, figure 8.1 shows that the sectoral growth in value addition is relatively low and has been on a downward trend on average since 2013, falling from 7 per cent to 1 per cent in 2022.

**Figure 8.1: Contribution of services sector to the economy (2000-2022)**



Source: World Bank Indicators (n.i.d)

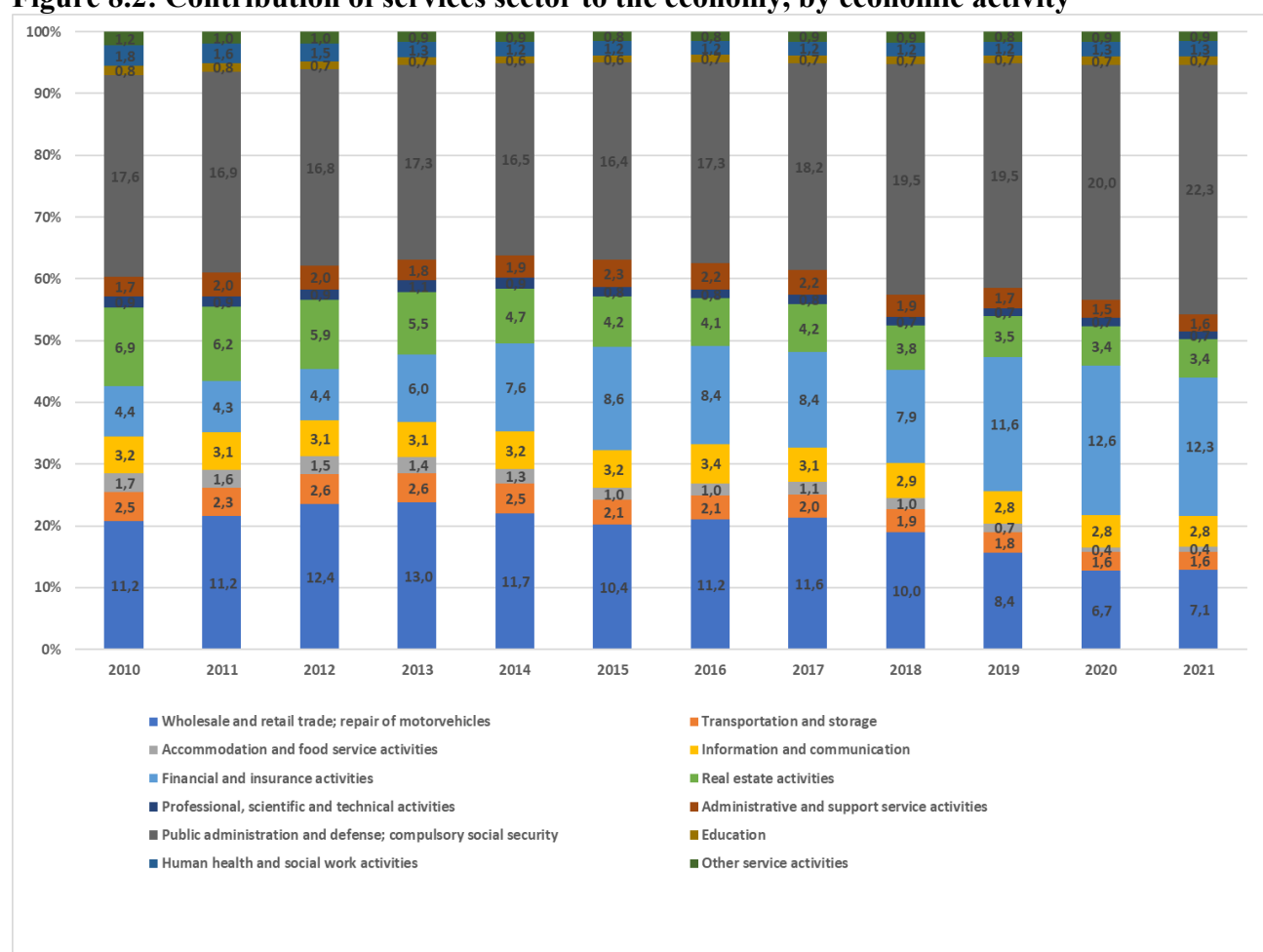
Traditionally, tourism industry has played an important role as a major contributor to Lesotho's services and as an important contributor to GDP and employment. In 2019, the industry accounted 12.3 percent of GDP and 92,900 jobs (Rasethuntsa, 2022). The country's startling natural landscapes, including its high mountains, make it an attractive destination for adventure tourism, hiking, and cultural tourism. The financial services sector has also been an area of growth and development over the years. Financial services are critical in international trade as they facilitate investment and capital allocation, while transportation and logistics services enhance supply chain efficiency. The country has worked towards establishing a favourable regulatory environment to attract investment in the banking, insurance, and other financial services sectors. The Central Bank of Lesotho (CBL) plays a crucial role in regulating and supervising financial institutions within the country. Enhancing professional services and healthcare is critical for enhancing the quality of life for Basotho and attracting foreign direct investment (FDI). This involves expanding the availability of medical facilities, promoting medical tourism, and ensuring a skilled and well-regulated professional services sector for both domestic and international clients.

Services often require investments in technology and innovation, leading to advancements that can benefit other sectors as well. For instance, developments in telecommunications and information technology have far-reaching effects on various industries including manufacturing and agriculture. However, Basotho population and business are constrained by limited access to internet access, with internet penetration of 48 percent of total population, which translates to about 1 million internet users



at the start of 2023 (Digital, 2023).<sup>26</sup> This in turn limits opportunities for international companies to offer services related to infrastructure development and digital connectivity. Figure 8.2 shows the contribution in terms of GDP of various economic activities within the service industries for the past ten years. Finance and insurance activities sector has become increasingly important in driving Lesotho's growth trajectory, with its contribution increased from below 5 per cent between 2010 and 2012 to over 10 per cent between 2019 and 2021 (see Figure 8.2). Conversely, transport and storage, as well as information and communications have had a declining share to GDP over the past 10 years. Services sectors provide the unique opportunities and advantages in the context of international trade, specifically for economic diversification beyond the traditional primary sectors such as agriculture (UNCTAD, 2022 & 2023). Services through transport, logistics and digital technology are essential for facilitating trade and improving Lesotho's participation in regional and international markets (UNCTAD, 2023).

**Figure 8.2: Contribution of services sector to the economy, by economic activity**



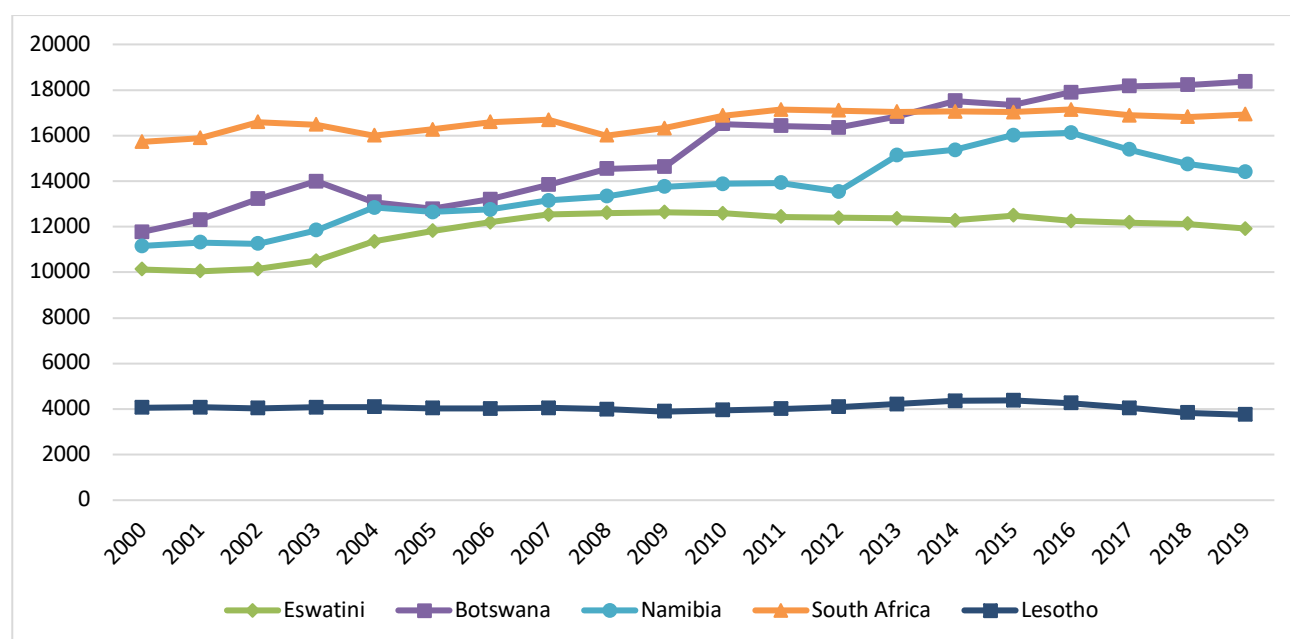
Source: Bureau of Statistics (2021)

The strong contribution of the services sector in Lesotho could be undermined by significantly low trends in value added per worker represented by labour productivity. Figure 3 highlights that Lesotho's labour productivity in the services sector is estimated to be \$4060 on average over the period 2000-2019, which is significantly low compared to the country's close neighbours and trade

<sup>26</sup> <https://datareportal.com/reports/digital-2023-lesotho>

partners within the Southern African Customs Union (SACU) region. Low productivity has significant implications for the overall economy. It may indicate that resources, including labour and capital, are not being used efficiently. This misallocation of resources can hinder economic development by diverting valuable inputs away from more productive uses to less productive uses. Since services often constitute a substantial portion of the economy, any inefficiencies or low productivity in this sector can limit the economy's overall potential for growth. Low value added per worker also has underlying implications for trade in services. Inefficient services can make businesses less competitive in both domestic and international markets. Firms may struggle to compete on price or quality when service costs are high due to low productivity.

**Figure 8.3: Services, value added per worker (constant 2015 US\$)<sup>27</sup>**



Source: World Bank Indicators (n.i.d)

### 8.3 Trends in patterns and composition of Trade in Services

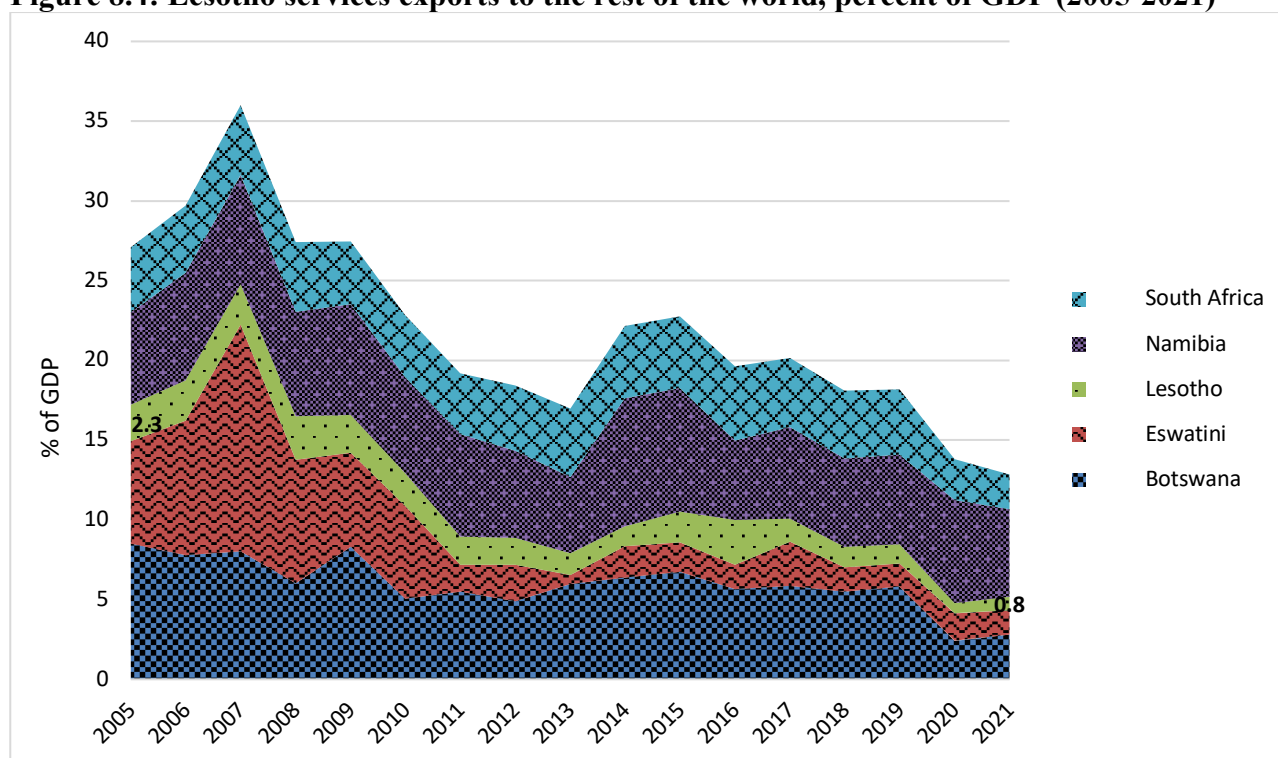
International trade in services takes place through four modes, namely mode 1 (cross-border supply), mode 2 (consumption abroad), mode 3 (commercial presence) and mode 4 (presence of natural persons). Basically, the distinctions among these four modes depend on whether the supplier and consumer of the service are in different countries or present in the same country at the time of a transaction. Mode 1 is when a service is supplied from one economy to another (services cross the border), mode 2 is when the consumer crosses the border to get the service, mode 3 is when a service supplier establishes a presence abroad in order to provide services, and mode 4 occurs through the presence of natural persons of one economy in another economy (supplier crosses the border) (Economic and Social Affairs, 2012). Services account for only one-fifth of global trade, leaving trade in services only about an eighth as intensive as trade in merchandise (Mburu-Ndoria, 2016). Similar trends can be observed in Lesotho's patterns of trade in services as discussed in subsequent sections.

<sup>27</sup> Value added per worker is a measure of labour productivity—value added per unit of input. Value added denotes the net output of a sector after adding up all outputs and subtracting intermediate inputs.

### 8.3.1 Commercial services exports

Lesotho's services sector is relatively underdeveloped compared to its neighbours within the SACU region. The contribution of services trade to Lesotho's GDP is relatively low and on a downward trend, from 30 per cent in 2000 to 18 per cent in 2021 (WTO statistics).<sup>28</sup> Compared to other SACU member states, Lesotho's share of exports of services as percentage of GDP is relatively low and has been declining overtime, from 2.3 per cent in 2005 to 0.8 per cent in 2021 (see Figure 8.4). This can be translated into a decline from 168.8 million US Dollar between 2005 and 2009 to 46.3 million over the period 2020-2022 (see Table A1 in the appendix). Following the global patterns, the bulk of Lesotho's exports of services are concentrated in a few sectors. The main services exports (Table A1) include commercial and travel (business and personal), telecommunications, computer, and information services as well as communication services. The value across all sectors declined significantly over the period 2020-2022.

**Figure 8.4: Lesotho services exports to the rest of the world, percent of GDP (2005-2021)**



Source: UNCTAD statistics database (n.i.d)

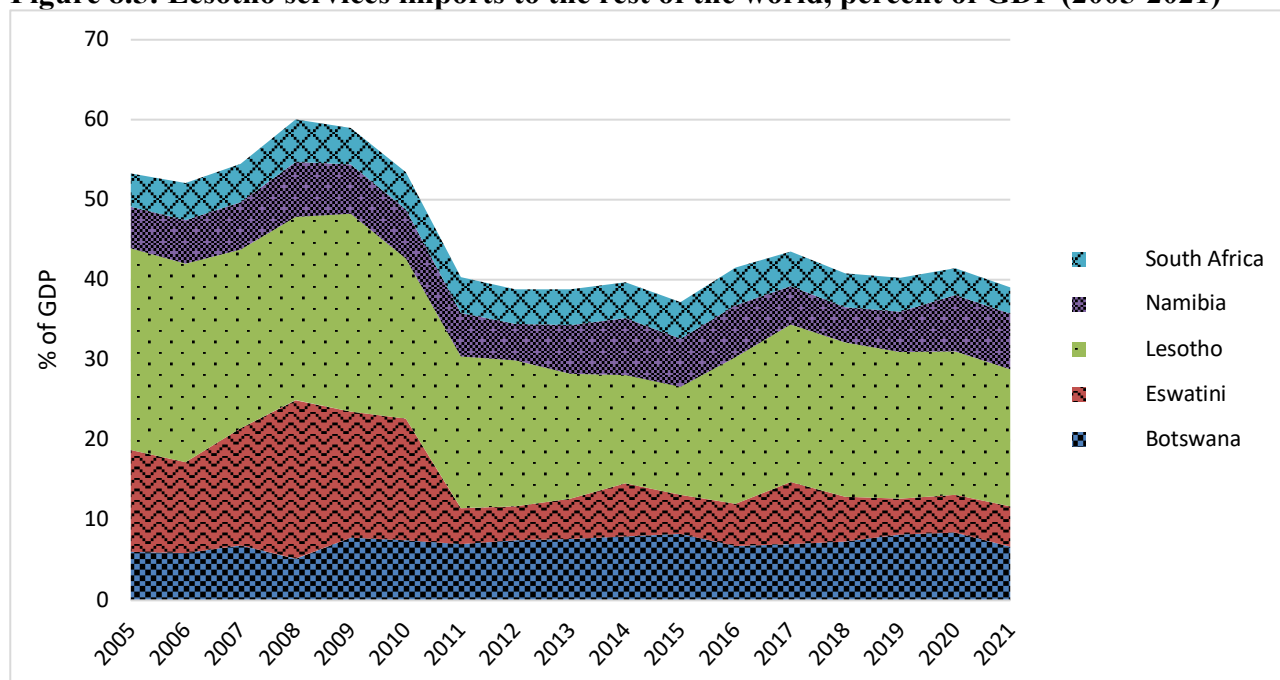
The declining share of trade in services exports in Lesotho, relative to its peers, can be attributed to several challenges. These include outdated regulatory and policy framework that governs trade in services in Lesotho, limited-service exports diversification, limited infrastructure and specialised skills, stiff competition and market access, external shocks, including the 2008 financial crisis, COVID-19, and the Russia-Ukraine conflict as well as over-dependence on traditional industries such as textiles and mining.

<sup>28</sup> [https://stats.wto.org/dashboard/services\\_en.html](https://stats.wto.org/dashboard/services_en.html)

### 8.3.2 Commercial services imports

Lesotho imports a relatively larger share of services compared to its comparator countries within SACU region, suggesting that Lesotho is a net importer of services. Figure 8.5 shows that Lesotho imports on average 19 per cent of its GDP (or \$7.3 billion) while the other SACU countries import less than 10 percent share of GDP during the period between 2005 and 2021. Several factors contribute to this structure. First, Lesotho's domestic service sector is limited in terms of capacity and diversity, and not sufficient to meet the country's service needs, leading to a reliance on imports. Second, some services require specialized expertise or knowledge that is not readily available within Lesotho, thus importing such services allows the country to access international experts and consultants. The availability of services can also be influenced by market dynamics and competition. Importing services should not be viewed negatively on the country's external sector because it can offer a wider range of options and potentially more competitive pricing. Importing services can thus provide Lesotho with opportunities to engage in global sourcing of services to access cost-effective and high-quality services from abroad. For example, businesses may outsource certain business processes or IT services to international providers (UNCTAD, 2022). However, if there is no plan to build domestic capacity through mandatory partnership between local and foreign suppliers, more importation of services than exportation is always unhealthy for an economy. The data shows that unlike declining trends in services exports, the relative performance of Lesotho's services imports improved over the same period, with main contributing sectors being commercial, travel, transport, and other business services (business and management consulting and public relations services), insurance and pension services.

**Figure 8.5: Lesotho services imports to the rest of the world, percent of GDP (2005-2021)**



Source: UNCTAD statistics database (n.i.d)

### 8.4 Legal and regulatory framework on Trade in Services

As an open economy, Lesotho is part to several trade arrangements that reflect the country's long-term efforts towards regional trade integration within Africa and outside (IMF, 2022). Lesotho is

signatory to several international and regional frameworks that govern trade in services. Specifically, Lesotho's participation in the General Agreement on Trade in Services (GATS) within the World Trade Organization (WTO), the African Continental Free Trade Area (AfCFTA) and Southern African Development Community Protocol on Trade in Services (SADC PTiS) have vital bearings in facilitating trade in services and attracting foreign investment (UNCTAD, 2018). Considering that Lesotho is a small landlocked economy, her ability to participate in these regional and international markets is very critical to her efforts in growing the economy and lifting her people out of poverty.

Trade in Services definition covers not only cross-border supply of services but also transactions involving the cross-border movement of capital and labour. "Services" includes any service in any sector except services supplied in the exercise of governmental authority. These agreements do not define "services" but rather Trade in Services as supply/sale or purchase of intangible, non-storable products.

**Table 8:2: Trade in Services is categorised into four modes of supply**

<p><b>Mode 1 (cross-border supply)</b> covers services that flow from the territory of one country into the territory of another country without the presence of a supplier, such as distribution services; distance learning; online consultations.</p>
<p><b>Mode 2 (consumption abroad)</b> covers cases where a service consumer moves to another country to obtain a service, such as tourism.</p>
<p><b>Mode 3 (commercial presence)</b> covers cases where a service supplier of one country provides a service to consumers in another country by establishing a presence, including through ownership or lease of premises, such as branches of foreign banks or international hotel chains.</p>
<p><b>Mode 4 (presence of natural persons)</b> cases where persons of one country, such as medical doctors and nurses, provide services directly to consumers in another country by entering the territory of another country (e.g., accountants, doctors, or teachers).</p>

#### 8.4.1 International and Regional Frameworks on Trade in Services

##### *A. WTO General Agreement on Trade in Services (GATS)*

As a member of WTO since 1995, Lesotho is subject to the rules and commitments outlined within GATS. GATS is one of the key agreements under the WTO framework, which governs international trade in services. These commitments specify the extent to which Lesotho is willing to open its services markets to foreign service providers and the conditions under which it will do so. GATS allows countries to choose which service sectors they wish to liberalise and to what extent. GATS is designed to facilitate the liberalisation of trade in services among WTO member countries and promote the growth and globalisation of services sectors around the world. The agreement adopts the definition of services as any service in any sector (including, financial services, telecommunications, transportation, tourism, health care, education, and professional services) except services supplied in the exercise of governmental authority.

Lesotho's GATS commitments specify how she will treat foreign service providers in each of the four modes of supply, including market access and national treatment. Lesotho has participated in GATS negotiations and while GATS promotes trade liberalization, it also recognizes the right of member countries to regulate services and introduce new laws for various public policy objectives, such as public health and safety. Members have the flexibility to maintain and implement domestic regulations in a manner that is reasonable, objective, transparent and impartial. Lesotho's participation in GATS is particularly relevant for specific service sectors where the country has trade interests or where it seeks to attract foreign investment or expertise. Services provide the basic infrastructure to support trade in goods (the Trade Facilitation function), for example, road and air transport; wholesale and retail services; logistics and express delivery services among others. GATS provides mechanisms for dispute resolution related to trade in services providing Lesotho the right to bring disputes or defend its interests if it believes that another WTO member's actions are inconsistent with GATS rules. As one of the least developed countries, Lesotho benefit from Special and differential Treatment (S&DT), where there is also capacity-building initiatives and technical assistance provided by the WTO for improved understanding and implementation of the GATS provisions.

### ***B. AfCFTA Protocol on Trade in Services***

Lesotho also participates in the *Protocol on Trade in Services* under the African Continental Free Trade Area (AfCFTA). The basis for negotiation under the AfCFTA is GATS commitments for all WTO members and upon the progress that has been made in trade liberalization and integration programmes of the Regional Economic Communities (RECs). The services commitments are scheduled on a positive list approach through requests and offers process. The first round (Phase I) of negotiations covers the five services sectors, namely: business, communication, financial, transport, tourism, and travel services. This schedule under the five services can now be implemented as it has been adopted in 2022. The subsequent round of negotiations will cover all the remaining services.

The AfCFTA Protocol serves as a catalyst for harnessing the potential development impact of services economy, intra-African and extra-African services trade. It includes provisions related to market access that pertains to the ability of service providers from one AfCFTA member state to access and operate in the markets of other member states. The protocol also includes provisions related to national treatment, which requires that foreign service providers be treated no less favourably than domestic service providers once they have entered a market. As a member of the AfCFTA, Lesotho has submitted its commitments to gradually liberalize specific service sectors over time. These commitments can include measures to reduce restrictions, lower barriers, or open markets to foreign service providers. It is part of the country's broader effort to promote trade and economic growth in the services sector, encourage investment, and strengthen regional ties. The success of the Protocol depends on Lesotho's willingness to adhere to its commitments and engage in cooperative efforts with fellow AfCFTA member states.

### ***C. SADC Protocol on Trade in Services***

As a member of the Southern African Development Community (SADC)<sup>29</sup>, Lesotho is bound by the provisions and commitments outlined in the SADC Protocol on Trade in Services, which forms an essential component of the SADC framework, aiming to facilitate trade in services among the SADC member states. The Protocol on Trade in Services came into force in January 2022 and covers six services sectors, which are communications, construction, energy, finance, transport, and tourism. The second round of negotiations that include other services sectors, being on Health-related Services; Educational Services, Distribution Services; Environmental Services; as well as Recreational, Cultural and Sporting Services, have started. SADC member states including Lesotho are currently at different stages of national consultations to identify offensive and defensive national interests for these remaining sectors.<sup>30</sup> There are close synergies between the SADC and the AfCFTA protocols on Trade in services. The SADC Protocol includes provisions related to market access and national treatment, progressive liberalisation, exemptions and flexibilities, transparency, regulatory cooperation, and dispute settlement. Under this protocol, Lesotho's committed sectors include Health services (veterinary, nursing, midwifery), travel agencies, tour guides, photographic services, real estate, telecommunications services, wholesale trade, retailing services, passenger, and freight transport.

Overall, Lesotho's participation in the SADC Protocol on Trade in Services reflects its commitment to regional economic integration and cooperation within southern Africa. As with other regional trade agreements, the successful implementation of the Protocol depends on Lesotho's willingness to adhere to its commitments and engage in cooperative efforts with fellow SADC member states. Also, it is worth noting that the SADC Protocol on Transport, Communication and Meteorology, explicitly provides for liberalization of cross-border road transport services through bilateral agreements among States parties. It addresses various aspects related to transportation, communication, and meteorological cooperation among the member states of SADC. The protocol aims to enhance regional integration, economic development, and cooperation in these critical sectors, which Lesotho is beneficiary to.

### ***D. Southern African Customs Union (SACU)'s Trade in Services***

The Southern African Customs Union (SACU) Agreement, to which Lesotho is also a member, does not cover trade in services; however, in 2008, the SACU Council of Ministers agreed to incorporate trade in services (investment and intellectual property rights) into the SACU Agenda. In April 2013, the 4th Summit of the SACU Heads of State and Government endorsed trade in services as one of her priority areas to underpin a new work programme. However, this process has not materialised and besides, several services sectors are integrated across SACU, but South Africa still dominates services trade with the rest of the world.

---

<sup>29</sup> The SADC is a regional economic community consisting of 16 member states in southern Africa.

<sup>30</sup> The first round of such sectoral negotiations was concluded in 2019 covering communication, financial, tourism, transport, construction, and energy-related services. The second round of negotiations was approved by SADC Trade Ministers in 2021, covering the remaining sectors, namely: business services; distribution; educational, health and social services; environmental services; and recreational, cultural, and sporting services (SADC, 2022).

## **8.4.2 Domestic Frameworks for Trade In Services**

It is critical to develop national and regional strategies for raising the profile of services, particularly infrastructure and logistics services, which have been identified as a priority for well-functioning value chains, so that service exports are seen as vital for economic development. Government of Lesotho (GoL) gives attention to policies and regulations that are directly linked to trade in services in Lesotho. The Second National Strategic Development Plan (NSDP II) commits the government to adopting a trade policy that will maximize private sector investment aimed at increasing Lesotho's regional and global competitiveness. These therefore lead to the development of the National Trade Policy Framework 2021-2025, to promote products and diversify her markets; and the National Trade Strategy 2021-2025 which is aimed at Strengthening Lesotho's export performance by enhancing trade and business environment as well as improving the competitiveness at the sector and enterprise levels.

The United Nations Conference on Trade and Development (UNCTAD) developed Services Policy Review for Lesotho in 2012. It focuses on three areas within the services sector, namely tourism, financial and professional medical service. The Lesotho Services Policy Review made recommendations addressing deficiencies relating to supply side constraints and a weak policy and regulatory environment. The review also addresses issues pertaining to lack of a more detailed and up to date data that can inform policymakers or even assist in regular monitoring or analysis of the progress made, and how if not addressed will inhibit developments in services trade.

### ***A. Business licensing***

The Business Licensing and Registration Regulations No.69 of 2020 grant citizens of Lesotho exclusive access to specific business services activities to promote and develop local entrepreneurship and micro, small and medium enterprises (SMMEs). The regulations were developed to also improve business environment in Lesotho. To simplify the business registration and licensing and improve ease of doing business, the government of Lesotho has established an online licensing system in 2020, which provides fully fledged online services that are linked with online payment. These services include (i) Online issuance of traders' licenses; (ii) Online issuance of manufacturing licenses; and (iii) Online renewal of licenses.

### ***B. E-commerce and Digital Services***

Lesotho has recently adopted the concept of e-commerce as it entered the digital era through the approval of several government services. However, a focused stand-alone e-commerce strategy is yet to be embraced and adopted. The absence of key laws and regulations related to e-commerce and electronic transactions can hinder the growth and development of the digital economy in Lesotho. This is critical because e-commerce relies on a legal framework that provides clarity, security, and consumer protection.

The Information Communication Technology (ICT) policy formulated by the Lesotho government in 2005, known as the 'ICT Policy for Lesotho', plays a crucial role in guiding the country's development in the digital age. The policy outlines Lesotho's vision of becoming a fully integrated information society. This vision recognizes the transformative potential of ICT in various aspects of national development. The policy emphasizes the importance of collaboration between the government, civil society organizations, and the public. This collaborative approach is essential for the successful implementation of ICT initiatives and ensuring that the benefits of technology reach all segments of



the society. Its key focus areas include e-commerce, e-government, health, education and human resources development, tourism, and the environment, as well as gender and youth.

The Parliament has yet to ratify and adopt the Electronic Transactions and Electronic Commerce Bill of 2013 and the Computer Crime and Cybercrime Bill (UNCTAD, 2019). The existence of the Data Protection Act of 2013 is a positive step because data protection is an essential component of e-commerce and digital trade. Personal data protection is essential for building trust in online transactions.

The Ministry of communications has developed proposals to expand electronic commerce, and e-commerce legislation is being drafted. To integrate e-commerce and digital services, Lesotho developed policies that address these aspects of trade in services, such as Data Protection Act of 2013. This is a positive development because data protection is a critical component of e-commerce and digital trade. The Central Bank of Lesotho provides a legal framework on all national electronic funds. Some of the legal tools that oversee the electronic transactions include Financial Institution Act of 1999, Payment Systems Act of 2014 and Payment Systems (Issuance of Electronic Payments Instruments) Regulations of 2017. But electronic commerce is not yet widely used in the country, where a small but growing percentage of the population has access to the Internet. The limit for electronic funds transfers to external bank accounts is capped at \$50 million per transaction while transfers to domestic bank accounts are limited to \$10,000 (ITA, 2021).<sup>31</sup>

### ***C. Trade Financing***

Trade finance covers payment methods and information on banking systems, foreign exchange controls, and the U.S. and correspondent banking.<sup>32</sup> The Central Bank of Lesotho (CBL) oversees Lesotho's foreign exchange reserves, administration of exchange controls, and regulation of financial institutions. The banking system is comprising of three South African-owned banks (i) Standard Lesotho Bank (ii) Nedbank Lesotho (iii) First National Bank Lesotho, with Post Bank rapidly catching up to the other three banks. All banks offer a widespread range of products and services through branch and electronic banking infrastructures. The CBL does not offer guidance linked to interest rates, exchange rate margins, or the spread of services offered and the branch network due to Lesotho's membership in the Common Monetary Area (CMA). This results in low-risk political environment for banking investment. Lesotho's banks are currently well capitalized, and considered relatively stable (IMF, 2022). Some of the commonly used methods of payment in Lesotho include, Cash, Direct Bank Transfers, Credit cards, Checks, Letters of Credit (LC), Sales on Consignment and International Money Transfers.

## **8.5 Opportunities through digital transformation**

### **8.5.1 Digital Trade and E-commerce**

The Fourth Industrial Revolution, characterised by rapid technological advancements and digitalisation, has transformed the landscape of international trade. Through digital platforms and tools, firms can access online resources (e.g training and government services) and attract skilled workers with reduced recruitment time and employment costs (Miroudot & Cadestin, 2017). Digital trade in services has emerged as a dynamic and critical economic activity in the global economy. It

---

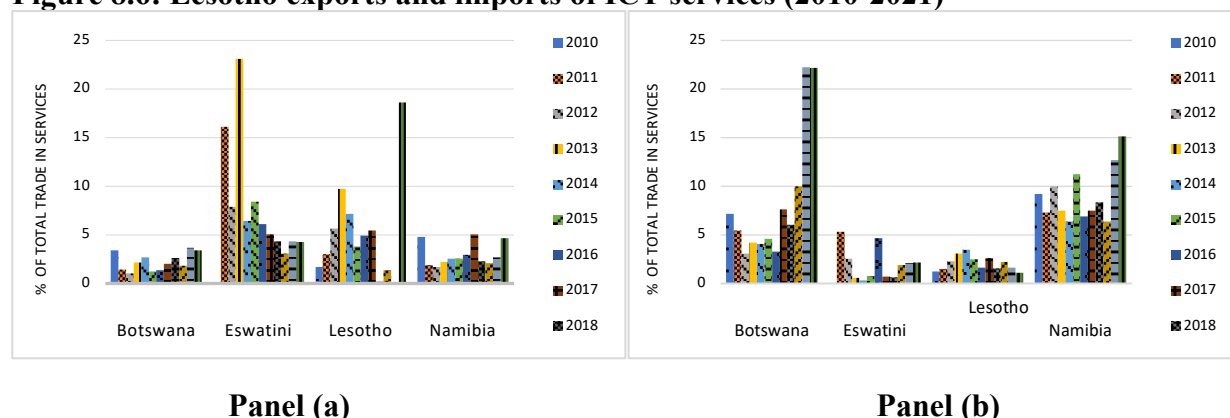
<sup>31</sup> <https://www.trade.gov/country-commercial-guides/lesotho-ecommerce>

<sup>32</sup> <https://www.trade.gov/report/trade-finance-guide>

encompasses a wide range of activities, including e-commerce, digital services, cross-border data flows, and has become increasingly important for businesses and consumers, offering firms with opportunities for growth, efficiency, and innovation. Since the 2000s, developing countries increasingly penetrated the global market as consumers and suppliers of ICTs goods and services, from bandwidth usage to ISP (internet service provider) services, platform services including payment gateways and trade portals and communications networks (Fu, 2020, Tralac, 2022). The COVID-19 pandemic coupled with the Russia-Ukraine conflict further deepened the significance of digital transformation (UNCTAD, 2022). During lockdowns and social distancing measures, digital solutions, such as remote work, online education, e-commerce, and telemedicine, became essential for maintaining economic activity and social interactions (UNIDO, 2020). The multi-pronged crisis environment confirmed the growing importance of digitalisation for economic and social stability towards the achievement of the sustainable development goals (SDGs) (UNCTAD, 2022).

Information and communication technologies (ICTs) are essential components within global value chains, serving as a crucial input for various industries and sectors, impacting both the production processes and the services offered. This ranges from basic word and data processing in administrative tasks to more advanced applications like computer-assisted design (CAD) in engineering and manufacturing. Despite its potential, digital trade faces several challenges and barriers, including archaic rules and regulations, new forms of protectionism, and the lack of international collaboration on global digital governance among others.

**Figure 8.6: Lesotho exports and imports of ICT services (2010-2021)**



Source: UNCTADS Statistics (*n.i.d*)

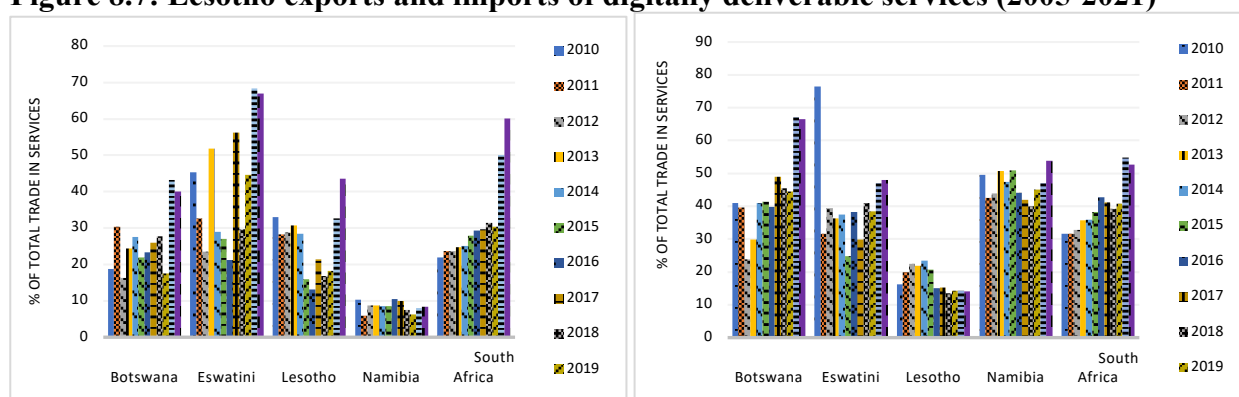
Nchake & Shuaibu (2022) highlight the significant role that low-cost and high-quality ICT infrastructure plays in promoting inclusive growth in Africa. Telecommunications networks, including internet and mobile communication systems, serve as the "transport mechanism" for various forms of digital information and services. They facilitate the rapid and efficient exchange of data and communication across long distances. The low shares of ICT services shown in Figure 8.6 (panel (a) for exports and panel (b) for imports) underscores the need for Lesotho to focus its efforts towards improving access to digital connectivity to support digital trade in services and maximise the potential to contribute toward inclusive, equitable, resilient, and sustainable development in Lesotho.

International trade in digitally deliverable services has become a significant component of the global economy, enabled by advances in ICT. It encompasses a wide range of services that can be delivered

over ICT networks, providing opportunities for cross-border trade and economic growth. According to UNCTAD data shown in Figure 8.7 (panel (a) for exports and panel (b) for imports), the share of digitally deliverable services has been low for last decade until 2020, where there was a significant increase in exports as digital penetration also increased in the wake of global lockdowns that restricted free movement of goods across borders. However, Lesotho's imports of digitally deliverable services remained low compared to its peers in the SACU region. Improving logistics, regulation, and ensuring that the benefits of digital services are accessible to all segments of the population can improve this trend. As the digitalisation ecosystem continues to develop, it has the potential to contribute to economic growth and job creation in Lesotho.

One of the main reasons for low participation in trade in digitally deliverable services may be explained by Lesotho's lack of digital readiness. Adequate ICT infrastructure and digital readiness enable countries to seize opportunities associated with the digitalization of services (UNCTAD, 2021a). Digital readiness goes beyond physical infrastructure and encompasses factors like digital literacy, the availability of digital skills, the ease of doing business online, and government policies that support digitalization. A digitally ready environment fosters innovation and digital adoption.

**Figure 8.7: Lesotho exports and imports of digitally deliverable services (2005-2021)**



**Panel (a)**

**Panel (b)**

Source: UNCTAD Statistics (*n.i.d*)

At a narrower scope, e-commerce offers great opportunities and benefits to businesses in developing countries (Richard *et al.*, 2010). In developing countries, large firms have witnessed extensive growth of e-commerce while SMMEs have remained at a relatively low adoption level (MacGregor & Kartiwi, 2010). Despite its infancy, e-commerce is on the rise in Lesotho, driven by increased internet access, changing consumer preferences, and the emergence of online marketplaces. The presence of local businesses, especially in urban areas, entering the e-commerce space through websites and social media platforms is a positive sign of digital adoption. This trend indicates that businesses in Lesotho are recognizing the potential of online sales channels. The involvement of international e-commerce giants like Alibaba, Amazon and eBay provides Lesotho consumers with access to a wide range of global products and services. This not only enhances consumer choice but also exposes local businesses to international markets through platforms like Amazon Marketplace.

However, several challenges that impede development confront the overall enabling environment for e-commerce in Lesotho. These include lack of trust on online systems, low level of internet access

by the population, minimal technology adoption by firms, lack of access to financing and weak IT skills across the overall population (UNCTAD, 2019). A significant share of the population (48 per cent) does not have access to internet, 35 per cent does not know how to use the internet while 15 per cent still do not believe in the use of internet (UNCTAD, 2019). These challenges suggest that the e-commerce ecosystem, while improving in comparison to previous years, is still in its infancy stage. As a result, Lesotho ranks relatively low in the global rankings in terms of e-commerce indices. The country ranked 127 out of 151 countries around the world, with the UNCTAD 2020 E-commerce index of 27.4, which is the lowest among its SACU regional peers (see Table 1).

**Table 8:3: UNCTAD Business-to-Consumer (B2C) E-commerce index and ranking in SACU (2020)**

Country	E-commerce Index	Rank
Lesotho	27.4	127
eSwatini	28.4	123
Botswana	38.7	104
Namibia	43.9	100
South Africa	56.5	73

Source: UNCTAD (2020)

The importance of e-commerce across various sectors in Lesotho demonstrates its versatility and potential to drive growth and innovation in multiple areas. First, e-commerce allows retailers to expand their reach beyond physical stores, tapping into a broader customer base. Second, online booking platforms and travel agencies can facilitate tourism-related services, such as hotel reservations and tour bookings. Third, e-learning platforms can provide online educational resources and courses, making education more accessible. Fourth, e-commerce can connect farmers to markets, enabling them to sell their products online. In addition, online banking and payment solutions are integral to facilitating digital transactions and e-commerce. Finally, e-commerce enables businesses in Lesotho to access global markets and reach international consumers. This is especially beneficial for small and medium-sized enterprises (SMEs) seeking to expand their customer base beyond national borders.

### 8.5.2 Digital trade finance and financial technology for services trade

Trade finance plays a critical role in enabling global trade through provision of the required financial instruments and enabling environment to ensure the smooth cross-border movement of goods and services. This support is vital for both buyers and sellers involved in international trade transactions. Trade finance instruments such as letters of credit and trade credit insurance help mitigate various risks associated with international trade (Dornel *et al.*, 2021). However, this traditional trade financing involves a lot of paperwork, manual verification, and complex documentation. Integrating digital technologies to facilitate and streamline various aspects of trade finance processes help to modernize and simplify these processes, making trade finance more efficient, accessible, and transparent for Lesotho's firms. Some important aspects of digital trade finance include: (i) *Blockchain and distributed ledger technology*, which are being increasingly used in digital trade finance and provide a secure and transparent way to record and verify transactions, making fraud and

errors less likely; (ii) online *platforms and marketplaces* where buyers and sellers can connect, negotiate terms, and secure financing. These platforms can match buyers and sellers more efficiently, speeding up the trade process; (iii) *electronic payments*, which make it easier for buyers to transfer funds to sellers across borders. This can include using digital payment systems, cryptocurrencies, or other digital payment methods (iv) *supply chain finance*, which allows for real-time tracking of goods in transit and can trigger financing automatically as goods move through the supply chain.

### 8.5.3 Digital payment infrastructure for services trade

The assessment of the efficiency and accessibility of payment systems for facilitating international trade in services is indeed vital for Lesotho's participation in the global economy. Evidence shows that Lesotho has made progress in digital payment infrastructure, but challenges persist, particularly in rural areas where access to digital payment solutions may be limited (World Bank, 2020).<sup>33</sup>

## 8.6 Conclusions and Policy Implications for Lesotho's Trade in Services

Compared to many African countries, services constitute the main economic activity in Lesotho. However, the sector's potential to accelerate economic transformation and growth remains untapped due to underlying structural challenges. It is imperative that Lesotho develops a **comprehensive services export strategy** to harness the untapped potential of services sector for economic development. This involves a combination of policy development, capacity building, awareness building, and international engagement to position African service providers competitively in the global marketplace. Through the strategy, Lesotho should consider:

- ❖ Identifying **constraints and challenges faced by service suppliers** in African countries, with a clear understanding of the specific requirements and opportunities within the service sector.
- ❖ Promoting **sector export diversification** strategy to include broader range of cross-border services.
- ❖ Developing and improving access to **reliable and self-explanatory services-related trade and market** intelligence. This can help policymakers and businesses make informed decisions about trade strategies and opportunities.
- ❖ Promoting **awareness** on the significance of services as a potential export driver. This includes educating stakeholders about the economic benefits of services exports and their role in overall economic development.
- ❖ Enhancing the **capability of trade support institutions** to create an effective policy framework. This includes enhancing the skills and knowledge of government agencies and organizations involved in trade promotion and regulation.
- ❖ Benchmarking **regulatory practices against international standards** for creating a conducive environment for services exports. Streamlining and improving regulations can reduce barriers to trade in services.
- ❖ Actively **promoting services exports** that involves marketing the capabilities and expertise of African service providers to international markets. This can include trade missions, participation in trade fairs, and marketing campaigns.

---

<sup>33</sup> <https://www.worldbank.org/en/news/feature/2020/10/26/closing-the-digital-divide-a-time-to-stay-connected>

- ❖ Enhancing the **export readiness of services suppliers**. This involves advancing businesses adapt to market opportunities, align with global and regional value chains, and meet international quality and compliance standards.
- ❖ Promoting **improved participation** in the regional and international services economy that is **sustainable and inclusive**. This includes ensuring that a broad range of businesses, including SMEs, can access and benefit from services export opportunities such as the AfCFTA.
- ❖ Addressing **skills mismatches and shortages** for the growth of the services sector. Training and education programs can help develop a skilled workforce capable of meeting the demands of global markets.
- ❖ Improving **facilitation of trade in services** through advanced digital infrastructure and payment systems. This requires strategies and mechanisms to streamline customs procedures, reduce trade barriers, and simplify cross-border transactions, particularly for services with high export potential.
- ❖ Actively engaging in **regional and international trade agreements** and partnerships to facilitate the flow of services across borders. This is critical to advocate for favourable terms and agreements that benefit Lesotho's services exporters.
- ❖ Strategically promoting **tourism sector** by leveraging on the opportunities presented by the unique cultural and natural attractions that make Lesotho a great tourism attraction for African and the global community at large. Alongside tourism itself, there are numerous service industries that support the tourism sector, including hotels, restaurants, tour operators, and travel agencies.
- ❖ Leveraging on the opportunities provided under the AfCFTA to expand its **financial technology** by opening markets to financial services imports, engaging with other regional economic communities to harmonise its financial regulatory framework, and supporting general digital infrastructure that promote a wide spectrum of technologies and services aimed at reshaping the financial industry.

Furthermore, **promoting information technology-enabled business services** is fundamental for Lesotho's participation in global and regional value chains and leverage opportunities in the 21st-century services trade, provided by various international and regional trade agreements including the AfCFTA. But this requires a clear focus on connectivity, language skills, customer-centric approaches, time zone considerations, and telecommunications infrastructure to enhance competitiveness and facilitate economic transformation.

Lesotho has high literacy levels, a pool of ICT-qualified graduates, relatively good internet connectivity coupled with proximity to South African market, the country has great potential to set up and manage business operations with globally competitive costs, making it a lucrative destination for **business operations and ICT services**. The consistent supply of skilled and semi-skilled workers also makes it attractive for Lesotho to be a host for Knowledge Process Outsourcing (KPO) as well as Business Process Outsourcing (BPO).<sup>34</sup>

---

<sup>34</sup> Knowledge Process Outsourcing (KPO) is the process of outsourcing knowledge intensive activities that are data driven and encompass the process of gathering, managing, analysing, and delivering objective insights into businesses. Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates, and manages the selected processes based on defined and measurable performance metrics.

In conclusion, positioning Lesotho as a competitive player in the global services trade landscape while safeguarding the well-being of its citizens and businesses requires a strategic and coordinated approach. The strategic recommendations outlined in this chapter can play a pivotal role in achieving these goals. By implementing these recommendations, Lesotho can create an enabling environment for its services sector to thrive in the global market, attract foreign investment, create jobs, and improve the well-being of its citizens and businesses. This holistic approach can contribute to Lesotho's economic development and its role as a competitive player in global services trade.

## References

- Dornel, A., Engel, J. & Malouche, M., (2021). Financing More Resilient Trade and Value Chains, World Bank, Washington, DC. United States of America. Available at: <https://policycommons.net/artifacts/3078855/financing-more-resilient-trade-and-value-chains/3881839/>
- Economic and Social Affairs (2012). Manual on Statistics of International Trade in Services 2010. United Nations publication. Sales No. E.10.XVII.14. Geneva. Available at: [https://unstats.un.org/unsd/publication/seriesm/seriesm\\_86rev1e.pdf](https://unstats.un.org/unsd/publication/seriesm/seriesm_86rev1e.pdf)
- Fu, X. (2020). Digital transformation of global value chains and sustainable post-pandemic recovery, *Transnational Corporations*, 27 (2), 157-166. Available at: [https://unctad.org/en/PublicationChapters/diaeia2020d2a9\\_en.pdf](https://unctad.org/en/PublicationChapters/diaeia2020d2a9_en.pdf)
- Government of Lesotho (2022). Science, Technology and Innovation Review and Technology Needs Assessment for Lesotho. Available at: [https://www.un.org/technologybank/sites/www.un.org.technologybank/files/lesotho\\_tna\\_report\\_final\\_6\\_may\\_2022.pdf](https://www.un.org/technologybank/sites/www.un.org.technologybank/files/lesotho_tna_report_final_6_may_2022.pdf)
- International Monetary Fund (2022). Staff Country Reports, 162. Available at: 10.5089/9798400212918.002.A009
- MacGregor, R. C., & Kartiwi, M. (2010). Perception of Barriers to E-commerce Adoption in SMEs in a Developed and Developing Country: A Comparison between Australia and Indonesia. *Journal of Electronic Commerce in Organizations*, 8(1), 61-82.
- Mburu-Ndoria, E. (2016). Africa continental free trade area: Liberalizing trade in services for trade facilitation. In UNCTAD report on project “Strengthening Capacities of African Countries in Boosting Intra-African Trade.” Available at: <https://unctad.org/meetings/en/SessionalDocuments/ditc-ted-Nairobi-24082015-mburu.pdf>.
- Miroudot, S., & Cadestin, C. (2017). Services in Global Value Chains: From Inputs to Value-Creating Activities, OECD Trade Policy Papers, No. 197, OECD (Paris).
- Nayyar, G. and Davies, E. (2023). Services-led Growth: Better Prospects after the Pandemic, Falling Long-term Growth Prospects: Trends, Expectations, and Policies, Washington, D.C.: World Bank.
- Nchake, M. A., & Shuaibu, M. (2022). Investment in ICT infrastructure and inclusive growth in Africa. *Scientific African*, 17, e01293.
- Rasethuntsa, B. C. (2007). The Tourism Industry and Economic Growth Nexus in Lesotho. *World*, 2015, 2017-2019.
- Richard, B., Hinson, R., Heeks, R., Molla, A., & Mbarika, V. (2010). A Resource-Based Analysis of E-commerce in Developing Countries. Proceedings of the 18th European Conference on Information Systems, 6-9 June, 1-12. Pretoria, South Africa. Available at: <https://aisel.aisnet.org/cgi/viewcontent.cgi?article=1110&context=ecis2010>



- Sekantsi, L. P. (2018). International remittance markets in Lesotho: Implications for economic and social development. *Journal of Payments Strategy & Systems*, 12(2), 166-184.
- Tralac (2022). Trade in the Digital Economy: A Tralac Guide. Available at: <https://www.tralac.org/documents/resources/booklets/3175-trade-in-the-digital-economy-a-tralac-guide-march-2020/file.html>
- UNCTAD (2018). Services Policy Review: Lesotho. Available at: [https://unctad.org/system/files/official-document/ditctncd2012d1\\_en.pdf](https://unctad.org/system/files/official-document/ditctncd2012d1_en.pdf)
- UNCTAD (2019). Lesotho Rapid eTrade Readiness Assessment. Available at: [https://unctad.org/system/files/official-document/dtlstict2019d8\\_en.pdf](https://unctad.org/system/files/official-document/dtlstict2019d8_en.pdf)
- UNCTAD (2021a). COVID-19 and E-commerce: a Global Review. United Nations publication, Sales No.E.21. II.D.9. Geneva.
- UNCTAD (2022). E-Commerce and the Digital Economy in LDCs: At Breaking Point in COVID-19 Times. Geneva. Available at: [https://unctad.org/system/files/official-document/dtlstict2022d1\\_en.pdf](https://unctad.org/system/files/official-document/dtlstict2022d1_en.pdf)
- \_\_\_\_\_. Report of the Multi-year Expert Meeting on Trade, Services and Development on its ninth session. Available at: [https://unctad.org/system/files/official-document/c1mem4d27\\_en.pdf](https://unctad.org/system/files/official-document/c1mem4d27_en.pdf)
- UNCTAD (2023). The role of trade and services for enhancing science, technology, and innovation to promote a fair transition to sustainable energy. Available at: [https://unctad.org/system/files/official-document/c1mem4d29\\_en.pdf](https://unctad.org/system/files/official-document/c1mem4d29_en.pdf)
- UNIDO (2020). Industrial Development Report 2020. Vienna: UNIDO. Available at: <https://www.unido.org/sites/default/files/files/2019-12/UNIDO%20IDR20%20main%20report.pdf>
- World Bank and World Trade Organization (WTO) (2023). Trade in Services for Development: Fostering Sustainable Growth and Economic Diversification, Washington, D.C.: World Bank/WTO. Available at: [https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_in\\_services\\_and\\_development\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_in_services_and_development_e.pdf)



**Appendix A1: Lesotho's trade in services by sector to the rest of the world: (Million USD)**

<b>Product/Sector</b>	<b>2005- 2009</b>	<b>2010- 2014</b>	<b>2015- 2019</b>	<b>2020- 2022</b>	<b>2005- 2022</b>
<b><i>Exports</i></b>					
<i>All services</i>	168,8	261,7	199,8	46,3	712,6
Commercial services	151,2	241,5	186,5	39,4	650,5
Travel	120,3	155,1	149,7	20,7	472,9
Other business services	9,0	53,7	24,8	12,8	102,4
Transport	2,6	4,4	3,7	1,6	13,1
Charges for the use of intellectual property	0,0	0,3	1,1	0,5	1,9
Insurance and pension services	1,0	4,1	0,1	0,1	5,3
Telecommunications, computer, and information services	15,0	11,1	7,0	3,6	37,9
Financial services	0,6	2,3	0,0	0,0	2,9
Communications services	16,0	19,5	0,0	0,0	36,7
<b><i>Imports</i></b>					
<i>All services</i>	1902,7	2080,4	2100,4	1226,5	7310,1
Commercial services	1787,5	1944,8	2003,1	1206,5	6941,8
Travel	1251,5	1188,7	1396,1	888,7	4725,0
Transport	213,8	332,3	282,8	152,5	981,4
Other business services	218,8	258,8	202,7	104,9	785,2
Insurance and pension services	64,4	88,3	54,2	31,6	238,5
Telecommunications, computer, and information services	14,1	33,8	47,9	18,7	114,5
Charges for the use of intellectual property	7,1	22,8	15,8	8,2	53,8
Financial services	11,6	8,0	3,7	1,9	25,2
Communications services	15,8	26,5	0,0	0,0	42,3

*Source: International Trade Centre (n.i.d)*

# **CHAPTER NINE**

## **HUMAN CAPITAL DEVELOPMENT AND INTERNATIONAL TRADE IN LESOTHO**

**Dr Johnson Adelakun**

Department of Economics, National University of Lesotho  
johnsonadelakun@gmail.com

**&**

**Makamohelo Raseleman**

Department of Economics, National University of Lesotho  
makamoras187@gmail.com

## 9.1 Background

### 9.1.1 Human Capital and International Trade

In the classical theory of economic growth, labour productivity is regarded as an exogenous factor which depends on the ratio between workforce and physical capital, plus other factors (technical progress), but the beneficial effect of education on potential growth of productivity is not taken into calculation. The new theory of economic growth developed in the early 80s comes to correct this shortcoming of the classical theory emphasizing the importance of education and innovation, (elements of human capital) in long-term economic growth. In contrast to this, the theory of market value, shows that studies have highlighted the influence of intangible assets such as research and development, patents, intellectual capital on the market value of companies and on their development, leading ultimately to economic growth overall national, regional, or global, as the new growth theory shows (Pelinesocu, 2015).

De la Fuente and Doménech (2000, 2006) studied the relationship between production and human capital, both in level and in first-order differences, shows a positive and significant statistical correlation (demonstrated by the Temple, 1999). Bassanini and Scarpetta (2001) revealed in a series of OECD data for the period 1971 to 1998 that increased duration of schooling by one year leads to an increase in GDP per capita by 6%. Benhabib and Spiegel (1994) have shown that the introduction of human capital as a factor of production by function type Coob -Douglas leads to its insignificant effect on growth of GDP per capita, but if taken into account the influence of human capital on total factor productivity, the effects are visible in two aspects: a) human capital influences the internal rate of innovation as evidenced by Romer (1990); b) human capital influences the rate of diffusion of technology in the spirit demonstrated by Nelson and Phelps (1966). They show that an increase of 1% of the capital stock leads to a 0.13% increase in the rate of growth and the process of catching up technological development of other countries is strongly influenced by human capital stock nationwide as demonstrated by the Funke and Strulik (2000).

Michael Funke, Holger Strulik (2000), using a model that incorporates aspects of the classical theory of economic growth with the new theories of economic growth emphasize the existence of different effects of human capital in the stage of development of the country. In their view, the model provided by Uzawa-Lucas may explain the development mechanisms if productivity in the accumulating knowledge is sufficiently high, but Grossman Helpman model for an economy with a wide variety of products can be explained considering technological growth as endogenous factor, which involve significant expenditure on research and development. Physical capital contributes greatly to the growth income per capita in the early stages of development when the accumulation of knowledge through continuing education and training move to higher stages of development.

Bundell and others (1999) analysing the impact of human capital on economic growth believe that the growth rate of output depends on the rate of accumulation of human capital and innovation, whose source is the stock of human capital, education level influence labour productivity. For supporting of these ideas they quoted passage: a) the work of Griliches (1997) which showed that in the US in 50 years the change in the level of education of the labour force led to a 33% increase in productivity; b) Jenkins (1995), which revealed that during 1971-1992, a 1% share breeding of highly skilled workers has led to an increase of 0.42 to 0.63% of annual output in the UK; c) OECD record from

the 60s that have experienced rapid growth as a result of increasing the number of highly educated; Englander and Gurney (1999) which showed that growth in OECD countries from 70% in 1960 to 95% in 1985 of school enrolment has led to an increase of 0, 6% per year in labour productivity (Bundell and others, 1999, p.16-17).

Mincel (1995) show that higher growth of technological change in a sector, leads to greater demand for educated and trained workforce through training courses. Ángel de la Fuente and A. Cicoone (2002) exhibit much greater role of human capital in explaining productivity differential between countries than in supporting growth.

Human capital allows an economy to grow. When human capital increases in areas such as science, education, and management, it leads to increases in innovation, social well-being, equality, increased productivity, improved rates of participation, all of which contribute to economic growth (Lucas, 1988; Andrew, 1960). Increases in economic growth tend to improve the quality of life for a population (Chandra, 2006). There is a strong relationship between human capital and economic growth, which is why it can help boost the economy. That's because people come with a diverse set of skills and knowledge. This relationship can be measured by how much investment goes into people's education. Some governments recognize that this relationship between human capital and the economy exists, and so they provide higher education at little or no cost. People who participate in the workforce with higher education will often have larger salaries, which means they can spend more (Robert, 2001).

Human capital is said to include qualities like an employee's experience and skills. Since all labour is not considered equal, employers can improve human capital by investing in the training, education, and benefits of their employees. Human capital is perceived to have a relationship with economic growth, productivity, and profitability. Like any other asset, human capital can depreciate through long periods of unemployment, and the inability to keep up with technology and innovation (Elena, 2015; Ann, 1999).

An economic growth rate is the percentage change in the value of all the goods and services produced in a nation during a specific period of time, as compared to an earlier period (Ronald and Henryk, 1983). Although investment in human capital tends to produce more growth, it doesn't necessarily mean the jobs are available for the newly educated workers. Also, geography plays a role when it comes to job openings and the movement of labour. If job openings are in the northern part of a country, but the skilled labour is in the south, growth could be hindered due to the cost of moving or the lack of desire to move (OECD, 2022). Human capital is positively related to economic growth though, it is difficult to establish a relationship of cause and effect from the growth of human capital to economic growth. But we can see that human capital formation is related to economic growth in the following manner:

Human capital is positively related to economic growth though, it is difficult to establish a relationship of cause and effect from the growth of human capital to economic growth. Human capital facilitates innovation of new methods and techniques of production, and this increases the rate of economic growth in the form of an increase GDP. Human capital formation leads to a higher employment rate. With an increase in employment, productivity rises. Also, an increase in employment opportunities increases the level of income and this helps in reducing inequalities of wealth. The process of human

capital formation brings a positive outlook to the society which is different from orthodox and traditional ways of thinking, hence it increases the rate of participation in the workforce leading to an increase in the level of production and GDP (David and Roy 1995).

### **9.1.2 Types and Perspectives of Human Capital Development**

In the 1950s, economists Theodore Schultz and Gary Becker popularized the concept of human capital development. Lesotho is a landlocked nation, which means it is surrounded by land and has no access to the sea. Currently, there are 45 such nations and 5 states with partial recognition. Due to the adverse consequences associated with the inability to access the sea, almost all these nations experience economic hardship (Central Bank of Lesotho, 2015; African Economic Outlook, 2015; Africa Institute, 1966). An employment catastrophe of unimaginable proportions is about to hit Lesotho. Agriculture productivity is still low and uncertain, and the vulnerable rural basis that houses (but cannot sustain) most of the people continues to degrade (Central Bank of Lesotho, 2010a, b; International Monetary Fund, 2006; Ministry of Development Planning, 2000). As a result, insufficient lands and impoverished rural areas are on the rise. The government's Second National Strategic Development Plan (NSDP II) for Lesotho (2018/19-22/23–2027/28) was extended for an additional five years. Two of the four priorities of the NSDP II are to promote equitable and long-term growth and job creation led by the private sector, as well as to strengthen human capital, create suitable and appropriate infrastructure, and upgrade national oversight and transparency systems (Kingdom of Lesotho, 2009, 2012).

The undesirable economic effects of COVID-19 exacerbated already high levels of poverty and the economy remained resilient in the face of the global downturn caused by Russia's assault on Ukraine, expanding by 2.5% in 2022, mainly due to increases in services (2.6%) and infrastructure (8.1%), monetary stimulus, and COVID-19-related expenditure. This is an increase of over 1.6% growth rate in 2021 (World Bank, 2022; CBL 2022b; Giménez et al., 2015). The pandemic exacerbated the slowing economic performance, affecting industries such as production, notably fabric, mineral extraction, building, and services. As a result, most households' incomes were impacted. One of Lesotho's most pressing problems is the high rate of joblessness. Lack of skills, a high incidence of sickness, particularly HIV/AIDS and tuberculosis (TB), a bad investment climate, and a lack of essential infrastructure are the main issues impeding returns to labour and jobs in Lesotho. Lesotho has the world's second-highest HIV prevalence rate among adults (15-49 years), at 25%. According to the 2017 Global TB Report, the incidence of tuberculosis is 724 cases per 100,000, which is the second highest (Global TB Report, 2017).

Furthermore, there are constraints in the financial sector, inadequacy, poor quality or lack of data in many sectors, a lack of commitment among the public, and inefficiency in both the public and private sectors. Human capital often governs the degree of growth and development, and improvements in technological, scientific, and other sectors (Adelakun, 2011). The term "human capital" identifies a person's characteristics that are thought to be beneficial to the process of production. It emphasizes the staff member's level of education, well-being, and expertise. Social scientists use this term to express the cash equivalent of a worker's abilities and expertise. The United Nations Development Programme compiles the HDI, which is intended to assess a country's average performance in three key areas of human development: lifespan and good health, education, and a decent standard of living.

Individuals, organizations, and governments have found the study of human capital to be tremendously useful (World Bank, 2022; Hamilton & Liu, 2014; Abbas, 2001). The main emphasis of the vast quantity of research on the subject has been education as a form of investment in this capacity. Education bears responsibility for the generation of skilled labour for both the economy and community, and it improves a society's quality of life by strengthening individual capabilities, norms of behaviour, practices, and productivity. Economic growth is fuelled by a country's willingness to spend on education. It is impossible to overestimate the importance of making investments in it for its continued development. The number of years in education is an important aspect of measuring human capital globally. A significant increase in the average number of years spent in formal education improves a country's human capital (World Bank, 2022; Awad et al., 2013).

Thus, the money spent on education will pay off since it will boost growth, employment, and economic activity. Additionally, by enhancing diet and health, education may boost both monetary and non-monetary benefits. It contributes significantly to economic growth and long-term development. A lot of methodological advancements have occurred in the analysis of human capital stock. Recent analysis examines costs, earnings, educational attainment, health, and well-being to evaluate it. Furthermore, it is essential to know the differences in business ownership amongst groups regarding education and language proficiency (Belitz et al., 2015).

### **9.1.3 Human Capital Theory**

Human capital theory refers to the concept of increasing human efficiency and effectiveness through education and training. Human capital research encompasses human resource assessment. It discusses how our society's functioning affects the generation of financial worth. The notion that each employee possesses abilities or talents was originally proposed by Becker and Rosen in 1962 and 1976, respectively (Becker et al., 1990; Becker, 1964). It takes education or training to acquire or amass such attributes. Therefore, managers must be able to oversee, mentor, and lead their subordinates in every aspect of their lives. Likewise, they should endeavour to maintain strong organisational, interpersonal, and practical skills (Bayraktar-Sağlam, 2016). Leaders are encouraged to understand how their team members work and build their skills. The theory contends that economic expansion will come from making sufficient human resource investments (Bhorat et al., 2016; Rosenzweig, 1990; Theodore 1961; Becker 1962). For example, many nations provide subsidized higher education to their residents because they comprehend that better-educated people are prone to become wealthy and spend more, which boosts the country's economic performance (Bae, 2014).

Human capital enhances productivity in a variety of ways. First, education, according to the literature is a worthwhile investment in capabilities that raises productivity. Education enhances one's intellectual investment, which fosters economic productivity and economic development. The invention of novel patterns and concepts is directly responsible for the accumulation of talent, which is represented by the expansion of scientific understanding. Inputs in this kind of investment also stimulate an increase of tangible financial resources, which results in growing the economy, through promoting research and development. Continual learning by people, either through intentional efforts or learning from practical experience boosts labour and capital efficiency and plays an important role in improving the economy. Human capital consists of knowledge, skills, education, training, experience, work ethics, practical abilities, and communication abilities. Such traits constitute "assets", indicating that they can provide a profitable or fulfilling product through human labour.

Experience, education, training, and health can all be considered as human capital traits. The latest developments in production and other relevant disciplines grow together with human capital. Human capital contributes to economic development through the expansion of individual knowledge. The quantity of competent workers needed is determined by how quickly consumer and business investment propels the economy forward. Investing in human capital is essential as one of the most fundamental business components. Businesses can measure human capital in a variety of ways to make sure their investments are yielding returns and providing value (Adelakun, 2011).

This hypothesis has some shortcomings even though its basic idea could seem appealing. According to the human capital hypothesis, individuals ought to consider making investments in themselves. Conversely, certain individuals consider it disappointing to be called "business equipment" or owned by the company, while some contend that the company's foremost asset is its workforce. Some claim that the current approach to growth in capital does not allow for accurate assessments of aptitude and competence. Based on these, it is intangible to assess or award employees (Borojo & Jiang 2015, 2016). Furthermore, accusations of bias and favouritism in the workplace may follow. Although it is crucial, developing staff skill sets and competencies are not adequate to successfully manage an entire organisation. The notion is contested by modern anthropologists and sociological scholars, who claim that it is founded on several erroneous assumptions (Hanushek et al., 2015).

According to the human capital hypothesis, investing in education is critical for obtaining the necessary skills and expertise, which will ultimately expand one's wealth and value (Blundell et al., 1999). These abilities will improve the worker's output at work (Tan, 2014). This greater productivity will result in higher wages for the individual, bearing in mind that in an ideal labour market, wages are determined by the individual's efficiency (Bae, 2014).

The Human Development Index assesses three essential components of human development: knowledge, an elevated standard of living, and an individual's ability to live a life that is healthy and long-lasting. The index is generated using the following four variables: longevity of life at birth, average years of schooling, projected years of education, and gross national income per capita (Bae, 2014; Pegkas & Tsamadias, 2014; UNDP 2019). The United Nations Human Development Index is a combined measure that takes financial status, educational attainment, and estimated lifespan into account. It attempts to assess both the standard of living and income. Between 1980 and 2021, Lesotho had an average value of 0.471 points with the lowest point of 0.43 in 2005 and a highest of 0.527 points in 2020. The highest recent estimate, which is 0.514 points, is from 2021. Comparatively, the global average is 0.724 points based on data from 184 countries in 2021 (TheGlobalEconomy.com, 2022).

Unemployment level remains high, with a projection of 18% in 2022, as do poverty and inequality. In the 2000s, Lesotho made efforts toward eradicating poverty by bringing the headcount level of poverty (\$1.9/day PPP) down from 61.3% in 2002 to 59.7% in 2011. According to the 2022 projections, 32.4% of people remain living on less than \$2.15 poverty line each day. In an environment of high inequality and insufficient institutions, solving fiscal and external issues remains a challenge (World Bank, 2022; CBL, 2022b).

The government has worked with development associates to strengthen human resources (Schwab, 2017; National Planning Commission, 2011). In 2000, the Free Primary Education (FPE) program was launched, with the goal of covering all primary and secondary education. Secondary students

receive free meals while primary pupils receive free education. Besides, the tuition fees for secondary schools were partially subsidized, and books could be accessed through a rental arrangement. FPE is anticipated to increase the nation's long-term economic potential by enhancing skills while enabling low-income households to utilise the money saved from school fees for essentials like food. This scheme has directly stimulated economic activity by building schools and hiring more instructors. It significantly influences poverty alleviation by contracting out lunch services to surrounding suppliers and feeding children at school (World Bank 2021, 2014). In the previous budget, education was the only budget item with the largest commitment in the previous budget, bringing up 20.1% of total spending, making it the sole largest commitment. The Limkokwing University of Creative Technology was founded in October 2008 to offer local education in subjects including creative design and computer engineering. It is the second-ranked university in the Kingdom of Lesotho. In addition, Lesotho students have been granted scholarships from the People's Republic of China to pursue studies in China in disciplines like computer engineering and economics (National Planning Commission, 2011; The People's Republic of China, 2007).

The government just signed a consensus with Nigeria to equip medical professionals, and the first batch of 20 trainees arrived in November to commence their medical training. The National University of Lesotho will offer the first three years of training for medical students in subsequent years, who will then complete their studies in Nigeria (CBL, 2022). These educational collaborations will support Lesotho's funding of students. The government has prioritized health, notably HIV/AIDS, as an MDG because of alarming indications that have dramatically declined. HIV/AIDS affects 24% of the population aged 15-49. According to the United Nations Children's Fund, life expectancy has dropped from 60 years in 1996 to 34 years in 2005 (UNICEF, 2015). Human resources constitute a concern in the health sector. Lesotho is having a challenge of maintaining doctors and nurses drawn by prospects abroad, despite the devastating local working conditions. Employee retention is influenced by factors such as remuneration, supervision, working conditions, and career development frameworks (CBL, 2022; Statistics South Africa, 2016).

## **9.2 Determinants of Human Capital Development**

Human capital development is critical for sustained economic growth because nations develop when they invest in their human capital stock. Below are some of the factors that influence human capital development.

### **9.2.1 Literacy or level of education:**

It is the capacity of an individual to read, write, and talk effectively. This ability permits one to accumulate skills that allow them to clearly express themselves, listen to others, build an understanding, and gain knowledge.

According to UNESCO (2017), literacy enables people to achieve their goals, expand their knowledge, and actively participate in their communities and larger society (UNESCO, 2017).

According to the World Bank (2023), it is a cognitive capacity that helps a person comprehend complicated ideas, learn from experience, engage in various forms of reasoning, adapt well to one's surroundings, and overcome difficulties by means of thought.



Investment in education and training increases the likelihood of economic growth because a literate society will effectively participate in the labour force. According to Black and Lynch (1996), human capital is an important determinant of establishing productivity. This will boost productivity and efficiency while also boosting micro and macroeconomic growth (Bareke et al, 2021). In the context of international trade, production efficiency improvements enhance competitiveness meaning that countries produce more goods and services with the same amount of resources<sup>35</sup>. Furthermore, literate individuals get a chance to be employed across borders by transferring their skills to areas with high demand for skilled labour across the globe. This is because investing in education increases labour productivity, returns on capital, labour force marginal productivity, and technological innovation, and further promotes sustainable development by contributing to poverty reduction through higher earnings and output growth. Education investment has generational spill-over effects, resulting in social, economic, and non-economic repercussions.

According to the Lesotho Demographic Health Survey, the proportion of people aged 15 and above, who can read and write fluently (Literacy rate 15+) was 87.4 per cent in 2011. This rate fell from 86.3 percent in 2000 to 81 percent in 2021. According to the LNDC report (2023), the literacy rate from 86.3 percent in 2000 to 87.4 percent in 2011 has been strengthened by the fact that the government introduced free primary and inclusive education for all. Lesotho's government made significant contributions to its human capital development in terms of education and training investment by implementing a free primary education policy in 2000 and further introducing an inclusive education policy reform in 2016. The government also promotes tertiary education for its citizens both locally and abroad through the National Manpower Development Secretariat (NMDS) funding, which is administered by the Ministry of Development Planning. Students are expected to pay the bursary as they start working. However, Lesotho has a significant monetary gap, human resources and physical capital compete for scarce funds, and spending more on infrastructure may lower investment in human capital.

### 9.2.2 Health:

It is a broad state of well-being in all aspects of one's life from mental, physical, to social, and not only lack of illness (WHO, 1948). Health is a sort of human capital that helps to create other types of human capital. Human capital development benefits from health in both direct and indirect ways. It has a direct effect on the productivity of workers. Better labour-force health indicates more productivity, higher revenue, and more investment in human capital because a healthy individual can generate more. On the other hand, health has an indirect impact on human capital development because it increases the lifespan of healthy workers. Longer life expectancy increases the demand for retirement income, particularly in nations with low life expectancy, allowing employees to save and invest more for future consumption. Furthermore, investment in healthcare provision reduces infant mortality rate and disease contraction. When infant mortality declines, there is a reduction in high

---

35

[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwiAzvqYz4GCAXVbXqQEHTgUBZ0QFnoECAgQAw&url=https%3A%2F%2Fsaylor.org%2Ftext\\_international-trade-theory-and-policy%2F14-02-economic-efficiency-effects-of.html%23%3A~%3Atext%3DThe%2520main%2520sources%2520of%2520support%2Cthe%2520same%2520amount%2520of%2520resources.&usg=AOvVaw0ZnCQ7fHXvXZR4SVHVeAWE&opi=89978449](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwiAzvqYz4GCAXVbXqQEHTgUBZ0QFnoECAgQAw&url=https%3A%2F%2Fsaylor.org%2Ftext_international-trade-theory-and-policy%2F14-02-economic-efficiency-effects-of.html%23%3A~%3Atext%3DThe%2520main%2520sources%2520of%2520support%2Cthe%2520same%2520amount%2520of%2520resources.&usg=AOvVaw0ZnCQ7fHXvXZR4SVHVeAWE&opi=89978449)

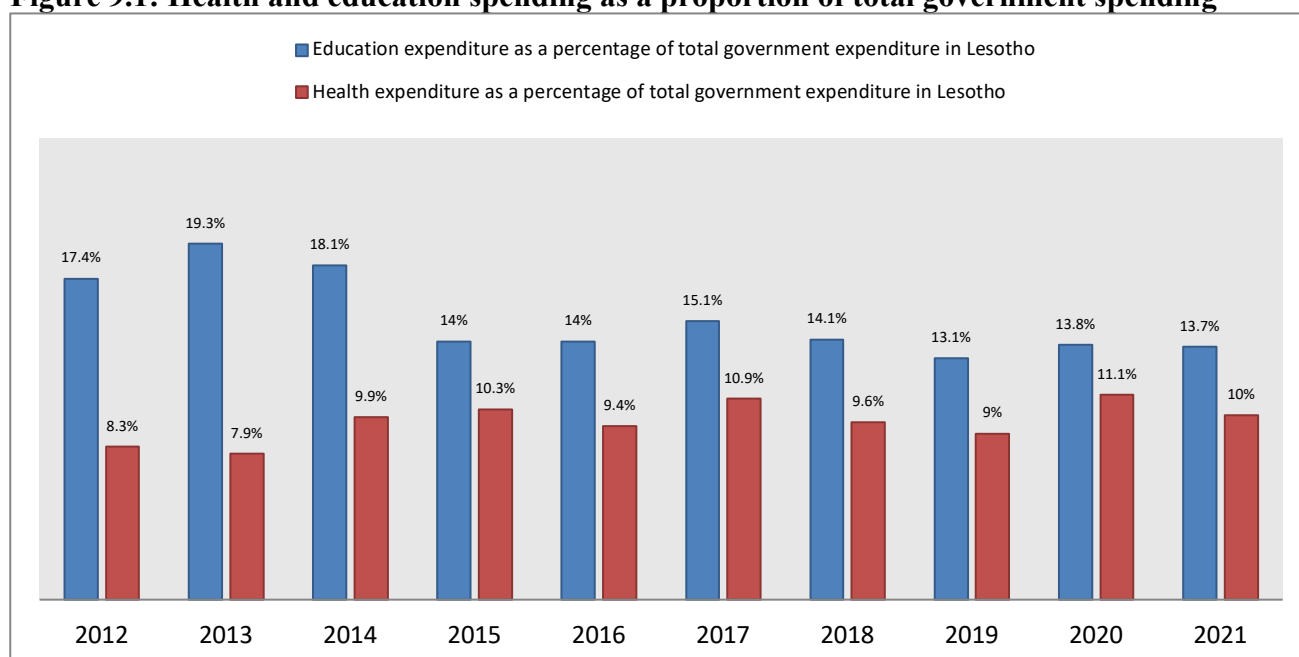
fertility rates and the participation of more women in the labour force, implying increased productivity, incomes, and economic growth (Boom and Canning, 2003).

Governments have an obligation to their citizens' health, which can be met by providing proper health care funding. In Lesotho, health spending as a proportion of total government spending was 9 percent in 2019, a decline of 1.9 percent from the 2017 figure. This trend of expenditure is depicted in Figure 9.1.

The growth of human capital has become a major issue for all countries, regardless of their degree of growth and development. States have widely recognized putting money into human capital through quality education and health care delivery systems to be one of the strongest and most effective tactics to pursue both immediate and long-term development goals in facing the backdrop of the current worldwide economic, financial, and pandemic crisis (Akunede, 2022).

Meanwhile, in Lesotho, the share of government allocation to the education sector gradually dropped from 14.1% in 2018 to 13.1% in 2019 and 13.8% in 2020, while health expenditure was beneath fifteen percent in 2021. This falls well short of the UNESCO-recommended minimum level of 26% funding dedicated to education and the WHO-recommended minimum of 15% expenditure on health. (Akunede, 2022). Sustainable economic growth in Lesotho will remain a pipe dream as long as investment in human development remains low.

**Figure 9.1: Health and education spending as a proportion of total government spending**



*Source: World Development Indicators*

### 9.2.3 GDP per capita:

It is a metric for calculating a country's economic output per person. GDP per capita is used by economists to estimate a country's wealth and economic progress. GDP per capita is calculated by dividing the GDP of a country by its total population (OECD, 2013). When GDP per capita rises, so do the standard of living, education, and health improve; all of which have a positive influence on human capital development. Furthermore, as per capita income rises, parents are more likely to invest

in their children's education, positively impacting human capital development by providing higher returns on education.

#### **9.2.4 Economic openness:**

It refers to the extent to which countries participate in the global market. It encompasses the effects of globalisation through the exchange of knowledge and increased demand for skilled labour. The openness of an economy correlates positively with the growth of human resources. According to the Grossman and Helpman theory, developing nations can profit from trading with industrialized countries by dipping into their expertise and advancements in technology, which has the potential to accelerate the accumulation of both physical and human capital (Kerebana and Krama, 2021). When Sajid et al. (2021) evaluated the impact of trade openness, human capital, and institutional performance on economic growth across 47 IOC countries from 1991 to 2021, they discovered a positive correlation. A study by Tsaurai (2018) unravels the positive impact of human capital improvement in the development of economies of emerging markets. Individual and family migration in response to changing employment opportunities also has a bearing on human capital development (Akunede, 2022).

#### **9.2.5 Inflation:**

It is an increase in the overall price level. It has a detrimental influence on the capacity for human development in emerging countries such as Lesotho since it raises the capital cost of investing in education and health. Bareke et al. (2021) and Tsaurai (2018) revealed that a percentage rise in the general price level reduces the average number of years spent in school by around 13.1% in the short term but is insignificant in the long run. Heylen (2012) and Tsaurai (2018) discovered a negative influence at high levels of inflation exceeding 15%. Higher inflation rates cause currency depreciation, increase import costs, decrease a country's demand for imports, and reduce competitiveness for exports, thereby affecting trade balance.

### **9.3 Constraints to human capital development**

Human capital development is becoming increasingly important in both developing and developed economies, and it is crucial in helping economies in achieving sustainable economic growth and development. However, its progression has been hindered by various factors and constraints, and oftentimes, these constraints hinder the potential of emerging countries to engage in the global economy and achieve long-term growth and development. This section discusses the constraints to human capital development as well as potential solutions to address them.

#### **9.3.1 Low literacy and education levels:**

Many developing countries' economic expansion and sustainable development Lesotho included are hampered by little investment in education and training, as evidenced by low levels of literacy. Developing countries face several kinds of educational difficulties, resulting in lower levels of development than most developed countries. This is due to a lack of resources and poor investment in infrastructure such as bridges, roads, and classrooms, as well as a shortage of teachers (Entekhabi, 2023). Despite the fact that the Lesotho government implemented strategic policies, including an education strategic plan for inclusive education in 2016, the country still has limited access to education because school-age children are discouraged for a variety of socioeconomic reasons, particularly in rural and marginalised communities. Young boys are compelled to herd their families'

cattle and drop out of school, while young girls suffer early child marriage, child-headed families drop out of school and seek employment to support their families, and some struggle due to a lack of sanitary towels. Some schools are in remote places, making it difficult for children to travel long distances, especially during severe weather conditions.

### **9.3.2 Insufficient healthcare:**

There are constraints to the healthcare system hindering access to healthcare services in developing countries. Inadequate funding hinders quality healthcare provision, resulting in a limited number of public hospitals and clinics in developing countries. In places where public hospitals are available, there are a limited number of beds used by in-patients and inadequate medical equipment. Lesotho is no exception, with only one referral hospital for a population of over two million people. The healthcare system is defective, and some people cannot afford to pay for their medical requirements out of pocket. An ill society is less productive, and when productivity suffers, so do economic growth and development suffer. Furthermore, inefficiency in the distribution of goods has an impact on the average level of healthcare in impoverished nations (WHO, 2021).

### **9.3.3 High unemployment and underemployment:**

High levels of youth unemployment rate and underemployment pose a challenge to economic growth and development in developing regions (ILO, 2021). The high rate of unemployment and underemployment are caused by market inefficiencies that arise from high corruption, political instability, and susceptibility to disasters from natural causes and environmental change (Entekhabi, 2023). There is also an availability of skills mismatch between labour market demand and the available workforce. According to the World Bank (2012), the unemployment youth rate is estimated at around 12.6 percent globally. In Lesotho, the youth unemployment rate was 26.9 percent in 2021 and 26.7 percent in 2022, while the overall unemployment rate was 22.5 percent in 2019 (BOS, 2023). This is because there are a large number of graduates each year, and the government as the main employing body is not able to absorb all of them into the labour market. This hinders growth because most of these graduates are beneficiaries of the NMDS funding and fail to repay the loan bursary. There is inadequate job creation in Lesotho, and the private sector is not as strong to stand on its own to assist in curbing high unemployment and underemployment due to fewer sources of capital for entrepreneurs to venture into job creation for them.

### **9.3.4 Brain drains:**

It pertains to the global movement of human capital especially the migration of highly educated people from underdeveloped to industrialized countries (Docquier & Rapoport, 2006). Brain emigration has long been considered a significant barrier to the development of developing nations. According to recent comparison data, there were approximately 20 million exceptionally qualified immigrants (i.e., workers from other nations with tertiary qualifications) residing in the OECD region by 2000. These highly talented immigrants are primarily (two-thirds) from developing and emerging nations, and they account for one-third of overall OECD immigration (Docquier & Rapoport, 2006). Many citizens migrate to different countries because of a lack of jobs and for those available jobs, wages are extremely low. Individuals also migrate in search of better standards of living. It negatively affects human capital development for developing countries because governments spend lots of money on their education and fail to reap their benefits because they migrate in search of better-paying jobs in more developed economies. This means a loss of funds and expertise to local countries

as well as the inability to harness and implement viable policies that will be sustainable for their development through their expertise.

#### **9.3.5 Gender disparities:**

It is an unequal treatment of individuals based on their gender. It is also associated with inequality. Inequality in developing countries is caused by an inefficient allocation of resources, resulting in high unemployment rate and underinvestment in human capital. Inequality hinders the inclusion of women in labour market participation, impacting economic growth and development. Inequality in human capital leads to division and power concentration, resulting in lower human capital and increased dissatisfaction within society, as well as low public trust in governments and social unrest (Ferreira et al, 2022). According to the Lesotho Poverty Assessment Report (2019), half of its population lives in poverty, and inequality remains high, affecting dismally human capital development.

#### **9.3.6 Limited investment in skills development:**

Inadequate investments in education or human capital have a negative impact on economic growth and development (Schultz, 1961; Becker (1962). This is most prevalent in underdeveloped countries. Lack of investment restricts opportunities for excellent education, particularly for underprivileged populations, making it difficult to acquire the necessary skills for them to develop (Entekhabi, 2023).

### **9.4 Solutions to the constraints hindering Human Capital Development progression.**

#### **9.4.1 Low literacy and education levels:**

To elevate the quality of education and training, the government should devote more finances to the education sector to improve structure (classroom building), materials for learning, wages for teachers, and hiring more teachers. Professional development initiatives for teachers should be implemented for them to effectively teach learners, as well as promote community awareness activities, which are critical in reducing poor literacy and education levels in nations with limited resources. Specific measures, such as enhanced educational initiatives and psychological aid initiatives, should be implemented to assist less fortunate individuals such as girls and children so that they can attend school without feeling inferior to other pupils.

#### **9.4.2 Insufficient healthcare:**

To improve healthcare services, governments in developing countries should prioritise health spending to improve infrastructure and provide doctors with the necessary medical equipment. Disadvantaged or marginalised populations in rural areas should also be prioritized and given equal access to healthcare services like those in urban areas.

#### **9.4.3 High unemployment and underemployment:**

To enhance economic growth and development, government stakeholders should modify tertiary education curricula and link workforce competencies with labour market requirements to reduce high unemployment. Regulations that encourage private sector growth, assist small and medium-sized businesses (SMEs), and encourage entrepreneurial activity should be implemented to provide new job possibilities and reduce the unemployment rate. Developing countries should implement Youth Apprenticeship Public Works Programs that cater to the youth and offer them skills and work experience to improve their chances of finding work with the proper businesses. This policy has been

implemented in several African countries, and it has been linked to increased welfare and economic growth (World Bank, 2012). This strategy was established in Lesotho by the Ministry of Finance in 2019, to assist the youth in acquiring the required skills they can use in the future to seek jobs, or even self-employ if possible, and battle the high rate of youth unemployment.

#### 9.4.4 Gender disparities:

The government should enact and implement policies that encourage comparable chances for high-quality education for girls and women, as well as remove male and female wage gaps, to diminish these gender disparities. Women should also be given opportunities so that they can participate in the labour market, economic activities, and politics, which will improve gender equality in the labour market, improve women's well-being and reproductive liberty, encourage female participation in decision-making processes, and promote equitable opportunity for all individuals.

#### 9.4.5 Limited investment in skills development:

Education and career-related training programs should be provided to target skills development. The government should encourage and develop more collaboration between the public and private sectors to leverage resources and improve skill development programs.

### 9.5 Context Analysis and Comparison

In the SADC region, Lesotho had an 81 percent literacy rate in 2021, ranking fifth as compared to its counterpart. Lesotho has a relatively high under-5 mortality rate of 72.9%. This depicts the likelihood of children dying before reaching the age of five, and it implies that Lesotho is far from being developed because most fertility rates have yet to grow, owing to the high rate of child mortality in comparison to other countries in the region. Lesotho's HDI is 0.51, which is lower than the UNDP average of 0.7222. This demonstrates that Lesotho lags in terms of advancement in health, education, and people's standard of living, ranking 10th. Lesotho is relatively open to trade compared to other member countries. This could be due to the country's reliance on imports, which range from raw materials to finished commodities. Education and health spending as a share of total government spending and GDP are both low, ranging from 13.66% in 2021 to 11.8% in 2020, respectively.

**Table 9.1: Indicators**

Country	GDP/ capita (Current US\$) 2021	HDI 2021	Literacy rate 15+ (%) 2021	Life Expectancy (Years) 2021	<5 mortality rate (%) 2021	Education and training expenditure as % of government expenditure 2021	Health expenditure from GDP (%) 2020	Inflation 2018	Openness (I+E/ GDP) ratio 2021
Angola	1903.72	0.59	72.28	62	69.4	6.92	5.4	19.63	0.62
Botswana	7238.8	0.69	86.82	61	34.9	15.42	6.2	3.24	0.89
Comoros	1577.47	0.56	61.99	63	49.7	-	5.3	1.7	0.42
DRC	577.21	0.48	80.02	59	79	21.61	4.1	29.27	0.80
Eswatini	3982.91	0.6	89.1	57	52.6	15.34	6.5	4.82	0.91
<b>Lesotho</b>	<b>1040.31</b>	<b>0.51</b>	<b>81.02</b>	<b>53</b>	<b>72.9</b>	<b>13.66</b>	<b>11.8</b>	<b>4.71</b>	<b>1.39</b>

Madagascar	503.35	0.5	77.25	64	66	15.52	3.9	8.6	0.54
Malawi	633.61	0.51	67.31	63	41.9	11.5	5.4	9.21	-
Mauritius	9062.72	0.8	92.15	74	16.6	14.32	6.2	3.23	0.98
Mozambique	491.84	0.44	63.42	59	69.6	18.76	8.8	3.91	1
Namibia	4919.19	0.61	92.25	59	39	24.81	8.9	4.29	0.82
Seychelles	12963.06	0.79	98.97	73	13.9	10.48	6.4	3.7	2.36
South Africa	7055.06	0.71	95.33	62	32.8	18.42	8.6	4.61	0.56
Tanzania	1146.03	0.55	81.8	66	47.1	13.54	3.7	3.51	0.3
Zambia	1137.34	0.57	86.85	61	57.7	11.51	5.6	7.5	0.86
Zimbabwe	1773.92	0.59	89.7	59	49.5	15.67	7.7	10.61	0.56

Source: UNDP and WDI.

## 9.6 Prospects of HCD and Lesotho Development Implications

Sequel to the above, it is essential to adjust budgetary allotments to the education and health sectors. There are several significant ramifications for Lesotho's economy. First, there is a direct impact on investment and infrastructure development in Lesotho. Additionally, it will increase domestic spending (utilities consumption, such as the use of water and electricity, telecommunications, etc.), which will hasten economic development and growth. Second, it is anticipated that 90% of the university's non-academic and support staff members as well as 80% of its faculty members will be Basotho. Additionally, the university is probably going to help the formal and informal private sectors of banking, lodging, transportation, and catering. Third, as previously indicated, the government offers loan bursaries to students for postsecondary education, suggesting that growth is progressing since an educated society gains from having more knowledge. An educated populace will have greater access to the job market, increasing productivity and efficiency, which will boost the economy.

Why there aren't enough university institutions in the entire country that can accommodate them, the government devotes a lot of money to higher-education institutions (tuition fees, living costs, etc.) abroad. Higher education in other countries comes at a hefty price when compared to home institutions. This would mean that more Value Added Tax (VAT) would be collected by the government as a result of higher spending on goods and services. University employees would also be required to pay income tax. Reducing poverty and attaining sustainable economic growth depends heavily on education. The government must keep constructing new universities, luring others to the nation, and fostering an environment that supports the ones that already exist. It should also keep making investments in people since doing so could result in a greater supply of competent and effective workers.

## 9.7 Lesotho Regional Economic Outlook and International Trade

The following interventions were committed under two windows of opportunity by the SADC Trade Allied Establishment, an initiative that provides monetary and technical help to SADC member states.

EUR 16, 8 million would be used to support these initiatives, which would help 12 SADC Member Countries in their efforts to implement the SADC Protocol on Trade and the SADC Free Trade Area (FTA). Among the countries that qualified for this window were Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia, and Zimbabwe each of these countries was given a portion of EUR 1.4 million. Furthermore, EUR 6 million was allocated to assist five SADC member countries that have reached an agreement on the Economic Partnership Agreement (EPA) with the European Union (EU). Support provided is concentrated on fulfilling their commitments and utilising the EPA's selling rights to the EU. Under this arrangement, Botswana, Lesotho, Mozambique, Namibia, and Swaziland all earned an extra EUR 1.2 million. The goal of this assistance is to promote intra- and inter-regional trade and sustainably develop the SADC area. The primary fields of attention provided by the SADC Protocol on Trade and the EPA windows are improving Customs Collaboration, Facilitation of Trade, The Industrial Sector evolution trade encouragement and improvement, regulations governing identity, international trade in services, and lowering the technical impediments regarding trade, and geographic and Phyto-sanitary procedures (Southern African Development Community, 2015).

Additionally, there are specific areas that only concern the EPA window: Instruments for trade defense, alterations related to trade, and rules governing competition. The establishment, which began operations in January 2015, was in the process of final replenishment of funding when this report was submitted for publication at the end of August 2020, with Member States' need to show that exceptional national initiatives could utilise the monies allotted by 31 March 2021. In an attempt to increase the insight and importance of the TRF projects to the process of integrating into the regional economy and their prospects for commerce with the SADC region, the Facility Support Unit (FSU) has encouraged and made it easier for Member Nations to put forward publications about completed initiatives and accomplishments as the TRF project nears completion. Contributions from Member States are included in this brief compilation. In addition to providing sporadic details on work completed in each country under the TRF, these contributions also serve as a dynamic documentation and point of reference for the accomplishments enabled by the TRF's implementation (SADC, 2002; World Bank, 2014).

Related to SADC's objective for regional economic integration is the intra-SADC tariffs procedure liberalisation which should be supported by industrialisation mechanisms to increase the SADC Member States' performance. Article 4(2) of the SADC Protocol on Trade contains the SADC Protocol on Industry. Under the SADC Industrialisation Approach and Roadmap, 2015-2063, Member States have committed to working together to carry out efficient measures to increase the productive potential of the region's economies. The Industrialisation Strategy specifically acknowledges that agriculture, which remains the foundation of the region's economy, has the potential to further the continent's industrialisation by adding value. The possibility of national, geographic, and international supply chains has also been revealed through the value chain analysis. As a result, SADC's regional economic integration goal will benefit greatly from this TRF project intervention in Eswatini (SADC, 2002).

After almost two years of involvement from the SADC-EU TRF, which began in 2017, the Ministry of Agriculture and Food Security of the Kingdom of Lesotho, through the Department of Agricultural Research, has completed a number of the most important prerequisites for trade internationally. In May 1995, Lesotho became a member of the World Trade Organisation (WTO). As a result, the nation



consented to being compelled by the multilateral trade rules and regulations. On the contrary, it joined the International Plant Protection Convention (IPPC), a body that regulates all plant health issues and, in particular, promotes easy and secure commerce, as a contracting party in October 2013. Adhering to the prerequisites and criteria for improved facilitation of trade, such as importing and exporting goods that satisfy the necessary worldwide phytosanitary and safety rules, was a requirement in addition to the country's membership in these two international organisations (WB, 2014; World Trade Organisation, 2014,2015).

### **9.7.1 Regional Integration Significance**

The project attempted to shape the nation's foreign trade by facilitating trade and opening up markets for people throughout the world who have been restricted by failure to adhere to international norms, particularly SPS regulations. The SPS system has currently provided the nation with the crucial acknowledgment to the extent that trade between two countries now includes trade partners in Europe (Germany and the UK), Asia (India), the United States of America, and the SADC region, specifically South Africa and Eswatini while sharing knowledge and resolving disagreements over SPS issues. Aside from the accomplishment of improving its SPS system using EU funds under the TRF, the country plans to continue improving its effort to meet best-world practices in SPS issues. By preserving its crops and natural assets against parasites, the Kingdom of Lesotho's economy is likely expanding as a result of the spread of SPS (WB, 2014; World Trade Organisation, 2014 & 2015).

The SADC TRF has demonstrated, as the plant healthcare specialist in charge of Sanitary and Phyto-sanitary issues, that nothing is unattainable with cooperation. The SPS system was hardly operational, but due to EU support, something could be showcased both locally and internationally. Lesotho is hardly lagging in terms of SPS challenges due to financial support from the TRF Project, which has improved capacity building and infrastructure development. DAR will keep developing to expand the system and people's ability to build on the basis established by the TRF Project. This will open new market prospects for Basotho who want to do business securely and easily on a regional and global scale. Adherence to SPS rules will undoubtedly be fundamental in meeting international standards for both developing and established businesses in the country. DAR will keep bringing SPS issues to light because better export and import decisions are made when individuals are better informed.

Currently, the EU-funded SADC TRF Project has established the Fish Residue and Honey Residue Monitoring Plans to prepare Zambia's export goods to satisfy the demands of the global market. Diversification of economic policies, mainly those aimed at increasing exports of non-traditional products like natural honey, seafood, and aquatic products, necessitated the creation and execution of instruments and procedures to track remains in these types of goods to gain access to domestic and foreign marketplaces (WB, 2014; World Trade Organisation, 2014 & 2015).

### **9.7.2 Implication of the SADC regional economic integration**

The National Quality Policy emerged within the framework of the SADC integration agenda with a focus on creating an environment that would enable Lesotho to fulfill its obligations under the Sanitary and Phyto-Sanitary (SPS) and Technical Barriers to Trade (TBT) Annexes of SADC. This redesigned quality regulation paradigm will make it easier for the government to meet its regional and international SQAM commitments. Additionally, it will help the nation put its regional industrialisation and trade strategy into practice, putting it on a level with its neighbours and major trading partners. Promoting regional and international trade and improving adherence to

accompanying obligations require a link between national quality initiatives and national and worldwide platforms.

Though restructuring can promote economic growth, it has stalled in the midst of the levelling off of the garment industry boom and the declining expansion of the services sector. Lesotho's economy is therefore still out of balance because of low development and corruption and is only powered by one engine. A sizable public sector and domestic demand are still the main drivers of economic growth. The public sector's percentage of the economy has hardly altered. Lesotho appears to be doing well on record when it comes to investment, which has averaged 29% of GDP each year since 2010 and has stayed strong even during the recent period of political instability. Although public sector investment levels rank among the world's highest, the government is responsible for the majority of this investment.

The government is also the largest employer, accounting for one-third of overall employment, whereas the private sector has only produced a small number of jobs. Government debt levels have progressively risen as a result of the public sector's dominance; in December 2020, they reached a level of 64.7% of GDP. The Government of Lesotho (GoL) has historically been in a position to afford these high investment levels and public employment due to its dependence on SACU transfers, which over the previous 15 years averaged 35% of GDP. However, because of their erratic nature and recent reduction, these transfers have increased macro-fiscal vulnerabilities. The COVID-19 pandemic was predicted to reduce SACU transfers even further. While migrant workers' remittances are important for the socioeconomic situation, they also support a consumption-based economy (Moshoeshoe, 2023). Subpar public investment decisions are continuously being made as a result of management issues that were first noted in 2012. This is demonstrated by the fact that despite high levels of government spending, inclusive growth has not been promoted and the poor have either no access to quality services or access to services that are provided in a spatially insensitive manner (Borojo & Jiang, 2016).

## **9.8 Summary and Conclusion**

Lesotho's human capital development is hampered by the country's failure to harness the optimum combination of human capital due to its impoverished economic performance, which encourages migration (brain drain), inadequate funding devoted to the health and education sectors which falls short of WHO and UNESCO standards, and an overall degradation of the education system, healthcare system, and citizen's standard of living. As a result, Lesotho's government officials and policymakers should direct more funds toward investment in these two sectors to achieve economic growth.

Lesotho must place importance on human capital growth and development in its national development strategy, evaluate its healthcare and educational policies, and expand its financial allocation to these two key areas in accordance with UNESCO and WHO requirements, to avoid running a human resource threat that is already causing inefficiencies in the country, such as high unemployment, fraud and corruption, and poor policy implementation.

## References

- Abbas, Q., (2001). 'Endogenous growth and human capital: A comparative study of Pakistan and Sri Lanka', *The Pakistan Development Review* 40(4), 987-1007.  
<https://doi.org/10.30541/v40i4Ipp.987-1007> [Links ]
- Adelakun O. Johnson (2011). Human Capital Development and Economic Growth in Nigeria”.  
*Journal of Economics Sustainable Development* [www.iiste.org](http://www.iiste.org) ISSN 2222-1700 2(6).8-21
- African Economic Outlook (2015). *Lesotho*. Accessed 30 January 2015.  
<http://www.africaneconomicoutlook.org/en/countries/southern-africa/lesotho/>
- Africa Institute (1966). *Lesotho: Economic Structure and Growth*. Pretoria: Communications of Africa Institute
- Akunede, M. C., Nzeribe, G. E., & Ezenekwe, U. R. (2022). Human Capital Determinants in Nigeria: Determinants and Challenges. *International Journal of Research and Innovation in Social Science (IJRISS)*, VI(X).
- Andrea Bassanini and Stefano Scarpetta, (2003), The Driving Forces of Economic Growth: Panel Data Evidence for the OECD Countries. *OECD Economics Studies*, 2001, (2), 9-56.
- Andrew Gunder Frank (1960). Human Capital and Economic Growth. *Economic Development and Cultural Change*, Vol. 8, (2), pp. 170-173
- Ann L. Owen (1999). International Trade and the Accumulation of Human Capital. *Southern Economic Journal*, Vol. 66 (1), pp. 61-81. <https://doi.org/10.2307/1060835>
- Awad, A., Halid, N. & Yussof, I., 2013, 'The impact of human capital on economic growth: The case of selected Arab countries', *International Journal of West Asian Studies* 5(2), 79-96. <https://doi.org/10.5895/ijwas.2013.12>
- Bae, S.O, 2014. Comparison and Implications of Human Capital Theory at the Individual, Organization, and Country Levels. *Journal of Organizational Culture, Communications, and Conflict*, 18(1)
- Barclays Bank International Limited (1978). *Economic Conditions in Lesotho*. Barclays Bank International, South Africa.
- Bareke, M. L., Agezew, B. H., Dedho, N. H., Lebeta, M. F., Demissie, M. M., Yimer, B. M., et al. (2021). Determinants of Human Capital Development in Ethiopia: Implications to Education Policy. *Education Research International*, 1 - 10.
- Barro, R.J., 2001, 'Human capital and growth', *American Economic Review* 91(2), 12-17. <https://doi.org/10.1257/aer.91.2.12>
- Bayraktar-Sağlam, B., 2016, 'The stages of human capital and economic growth: Does the direction of causality matter for the rich and the poor?', *Social Indicators Research* 127(1), 243-302. <https://doi.org/10.1007/s11205-015-0963-0>
- Becker, G.S., Murphy, K.M. & Tamura, R., 1990, 'Human capital, fertility, and economic growth', *Journal of Political Economy* 98(5, Part 2), S12- S37.
- Becker, G.S., 1964. Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education. New York: Columbia University Press.
- Belitz, H., Junker, S., Podstawski, M. and Schiersch, A., 2015. *DIW Economic Bulletin*, 35
- Bhorat, H., Cassim, A. & Tseng, D., 2016, 'Higher education, employment, and economic growth: Exploring the interactions', *Development Southern Africa* 33(3), 312-327. <https://doi.org/10.1080/0376835X.2016.1161501>

- Benhabib J., Spiegel M.M, 1994, The Role of human capital in economic development. Evidence from aggregate cross-country time, *Journal of Monetary Economics* 34, 1994 pp.143-173.
- Borojo, D.G. & Jiang, Y., 2015, 'The impact of human capital on economic growth in Ethiopia', *Journal of Economics and Sustainable Development* 6(16) 109-118.
- Borojo, D.G. & Jiang, Y., 2016, 'The impact of Africa-China trade openness on technology transfer and economic growth for Africa: A dynamic panel data approach', *Annals of Economics and Finance* 17(2), 403-431.
- Boom, D. E., & Canning, D. (2003). How Demographic Change Can Bolster Economic Performance in Developing Countries. *World Economics*, 4(4).
- Bundell R., Dearden Lorraine, Meghir C., Barbara Sianesi ,1999, Human Capital Investment: The Returns from Education and Training to the Individual, the Firm and the Economy, *Fiscal Studies*, vol. 20, no. 1, pp. 1-23.
- Central Bank of Lesotho (2010a). The Strengthening of the Loti Against Major Currencies: Implications for Growth and Employment in Lesotho. *Central Bank of Lesotho Economic Review*, October 2010.
- Central Bank of Lesotho (2010b). *Quarterly Review*. Central Bank of Lesotho, Maseru.
- Central Bank of Lesotho (2012). The National Strategic Development Plan 2012/13-2016/17. *Central Bank of Lesotho Economic Review*, No. 142, May.
- Central Bank of Lesotho (2015). *Quarterly Review*. Central Bank of Lesotho, Maseru.
- Chandra Shekhar Kumar (2006). Human Capital and Growth Empirics. *The Journal of Developing Areas*, Vol. 40, (1), pp. 153-179. <https://www.jstor.org/stable/4193022>
- David M. Gould, Roy J. Ruffin (1995). Human Capital, Trade, and Economic Growth. *Weltwirtschaftliches Archiv*, Bd. 131, (3), pp. 425-445. <https://www.jstor.org/stable/40440411>
- De La Fuente Á, Domenéch A., 2000, A Human capital in growth regressions: how much difference does data quality make? *Economic Department Working Paper* No262, Paris: OECD, 2000 (ECO / WKP (2000) 35).
- De La Fuente Á, Domenéch A., 2006, Human capital in growth regressions: how much difference does data quality make? *Journal of the European Economic Association*, March 2006, 4(1), pp.1-36.
- De la Fuente Á, Cicoone A, 2002, Human capital in a global and knowledge-based economy, *Final Report, European Commissions*.
- Docquier, F., & Rapoport, H. (2006). *The Brain Drain*. ResearchGate.
- Ederer P., Schuler P, Willms S, 2007, The European Human Capital Index: The Challenge of Central and Eastern Europe, *Lisbon Council Policy Brief*.
- Elena Pelinosocu (2015). The Impact of Human Capital on Economic Growth. *Procedia Economics and Finance*. [https://doi.org/10.1016/S2212-5671\(15\)00258-0](https://doi.org/10.1016/S2212-5671(15)00258-0). Volume 22, 2015, Pages 184-190.
- Englander, S Gurney, A, 1994, Medium-term determinants of OECD productivity. *OECD Economic Studies*, 22, Spring 1994, pp. 111-129.
- Entekhabi, M. (2023). Human Capital in Developing Countries: Common Challenges and the Path Forward. *The Journal of Emerging Trends in Marketing and Management*, 1(2).
- Funke M., H. Strulik, 2000, On endogenous growth with physical capital, human capital and product variety, *European Economic Review* 44 (2000), pp. 491-515.

- Gary S. Becker (1962). Investment in Human Capital: A Theoretical Analysis. *Journal of Political Economy*, Vol. 70(5), pp. 9-49. <https://www.jstor.org/stable/1829103>
- Giménez, G., López-Pueyo, C. and Sanaú, J., 2015. Human Capital Measurement in OECD Countries and Its Relation to GDP Growth and Innovation.
- Global TB Report, 2017.
- Griliches, Z, 1977, Estimating the returns to schooling: some econometric problems, *Econometrica* 45, pp. 1–22.
- Hamilton, K. and Liu, G., 2014. Human capital, tangible wealth, and the intangible capital residual. *Oxford Review of Economic Policy*, 30(1), pp.70–91. 18.
- Hanushek, E.A., Schwerdt, G. & Wiederhold, S., 2015, 'Returns to skills around the world: Evidence from PIAAC', *European Economic Review* 73, 103-130  
<https://doi.org/10.1016/j.euroecorev.2014.10.006> [ Links ]
- Heylen, F., Schollaert, A., Everaert, G., & Pozzi, L. (2012). "Inflation and human capital formation: theory and panel data evidence". in *Proceedings of the Paper Presented at the Money Macro and Finance Research Group 35th Annual Conference University of Cambridge*.
- International Monetary Fund (2006). Kingdom of Lesotho: Poverty Reduction Strategy Paper, Prioritization, and Cost Matrix. IMF Staff Country Reports. *IMF Country Report No. 06/143*.
- Jenkins, H, 1995, Education and Production in the United Kingdom, Nuffield College, Oxford, *Economics Discussion Paper* no. 101.
- Kerebana T.K. and Itode James Krama I. J (2021). Trade Openness, Human Capital Investment and Economic Growth in Nigeria. *International Journal of Development and Economic Sustainability*, Vol.9 (3), pp. 57-71.  
<https://www.eajournals.org/https://doi.org/10.37745/ijdes.13>
- Kingdom of Lesotho (2012). National Strategic Development Plan 2012/13 – 2016/17. *Growth and Development Strategic Framework*. Ministry of Planning Maseru.
- Lesotho National Development Corporation (2011). *Annual Report*. LNDC, Maseru, Lesotho.
- Ministry of Development Planning (2000). *Action Programme for Development of Lesotho 2001-2010*. Third United Nations Conference on the Least Developed Countries, Brussels.
- LPAReport. (2019). *Lesotho Poverty Assessment Report: Progress and Challenges in Reducing Poverty*. The World Bank.
- Lucas, R, 1988, On the mechanics of economic development, *Journal of Monetary Economics* 22, pp. 3–42.
- Martin N.B, Barry B and Kelly K (2021). The contribution of human capital to economic growth: A cross-country comparison of Germany, Japan, and the United States. *Brookings Economic Studies*, Brookings Institution Press, Germany.
- Mincer J, 1995, Economic Development, Growth of Human. Capital, and the Dynamics of the Wage Structure, 1994-95 *Discussion Paper Series* No. 744, (September), Columbia University, p.38.
- Ministry of Development Planning (2000). *Action Programme for Development of Lesotho 2001-2010*. Third United Nations Conference on the Least Developed Countries, Brussels.
- Mokhethi, M. C. & Vögel, A. J. (2015). Exports Constraints facing Lesotho-based Manufacturing Enterprises. *Acta Commercii*, Vol. 15, No. 1, pp. 1-8.

- Morris, M. & Sedowski, L. (2006). *Report on Government Responses to New post-MFA Realities in Lesotho. Report for the Institute for Global Dialogue*. Accessed April 25. [http://www.cssr.uct.ac.za/sites/cssr.uct.ac.za/files/pubs/prism\\_lesotho\\_clothingrept.pdf](http://www.cssr.uct.ac.za/sites/cssr.uct.ac.za/files/pubs/prism_lesotho_clothingrept.pdf).
- National Planning Commission, 2011, 'National Development Plan: Vision for 2030', no. RP270/2011, viewed 11 May 2018, from [https://www.gov.za/sites/default/files/gcis\\_document/201409/devplan2.pdf](https://www.gov.za/sites/default/files/gcis_document/201409/devplan2.pdf)
- Nelson R.R.; E. S. Phelps, 1966, Investment in Humans, Technological Diffusion, and Economic Growth, *The American Economic Review*, Vol. 56, No. 1/2. (Mar), 1966.
- OECD, 2012, Education at a Glance 2012.OECD indicators.
- OECD. (2013). OECD Factbook 2013. *Economic, Environmental and Social Statistics*, OECD.
- OECD (2022), Education at a Glance 2022: OECD Indicators, *OECD Publishing*, Paris, <https://doi.org/10.1787/3197152b-en>. Pg. 78.
- Pegkas, P. & Tsamadias, C., 2014, 'Does higher education affect economic growth? The case of Greece', *International Economic Journal* 28(3), 425-444. <https://doi.org/10.1080/10168737.2014.894551>
- Robert J. Barro (2001). Human Capital and Growth. *The American Economic Review*, Vol. 91, (2) Papers and Proceedings of the Hundred Thirteenth Annual Meeting of the *American Economic Association* pp. 12-17. <https://www.jstor.org/stable/2677725>.
- Romer, P, 1990, Human capital and growth: theory and evidence, *Carnegie Rochester Conference Series on Public Policy* 32, pp.251-286.
- Ronald Findlay and Henryk Kierzkowski (1983). International Trade and Human Capital: A Simple General Equilibrium Model. *Journal of Political Economy*, Vol. 91, (6), pp. 957-978. <https://www.jstor.org/stable/1831199>
- Rosenzweig, M.R., 1990, 'Population growth and human capital investments: Theory and evidence', *Journal of Political Economy* 98(5), S38-S70.
- Sajid, A., Yusop, Z., Kaliappan, S.R., and Chin, L. (2021). Impact of trade openness, human capital, and institutional performance on economic growth: Evidence from Organisation of Islamic Cooperation countries. *Journal of Public Affairs*, Vol. 22 (3) <https://dx.doi.org/10.1002/pa.2654>
- Sandra E. Black, Lisa M. Lynch (1996). Human-Capital Investments and Productivity. *The American Economic Review*, Vol. 86(2), pp. 263-267. <https://www.jstor.org/stable/2118134>
- Schwab, K., 2017, 'The global competitiveness report', viewed 11 May 2018, from [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf)
- Statistics South Africa, 2016, *Gross domestic product*, Pretoria, viewed 11 May 2018, from <http://www.statssa.gov.za/publications/P0441/P04414thQuarter2016.pdf>. 2016. [http://www.cssr.uct.ac.za/sites/cssr.uct.ac.za/files/pubs/prism\\_lesotho\\_clothingrept](http://www.cssr.uct.ac.za/sites/cssr.uct.ac.za/files/pubs/prism_lesotho_clothingrept).
- Rodriguez, F. (2007). Openness and Growth: What Have We Learned? *Department of Economic and Social Affairs Working Paper No. 51*.
- Seidman, G. W. (2009). Labouring under an Illusion? Lesotho's 'sweat-free' label. *Third World Quarterly*, Vol. 30. No. 3, pp. 581-598.
- Southern African Customs Union (2003). SACU Trade Policy Review. *Report by Secretariat. No. WT/TPR/S/114*. SACU Windhoek.
- Southern African Customs Union (2011). *Annual Report. SACU Windhoek*, Namibia.

- Southern African Customs Union (2014). *Annual Report. SACU, Windhoek*, Namibia.
- Southern African Development Community (2002). Regional Economic Review. *Southern African Economic Summit*, National Treasury Pretoria.
- Theodore W. Schultz (1961). Investment in Human Capital. *The American Economic Review*, Vol. 51(1), pp. 1-17. <https://www.jstor.org/stable/1818907>
- The People's Republic of China  
(<http://ls.china-embassy.gov.cn/eng/sgdt/201007/P020210828154394147608.pdf>.)
- Tsaurai, K. (2018). Investigating the determinants of human capital development in emerging markets. *International Journal of Education Economics and Development*, 9(2).
- UNESCO. (2017). *Strengthening Peer Learning of Education Policies for SDG 4: The Role of Regional Organizations - Global Education Monitoring Report*.
- United Nations Conference on Trade and Development (2012). *Who is Benefiting from Trade Liberalisation in Lesotho? A Gender Perspective*. United Nations, New York, and Geneva.
- Wang, J-Y, I. Masha, Shirono, K. & Harris, L. (2007). The Common Monetary Area in Southern Africa; Shocks, Adjustments, and Policy Challenges. *IMF Working Paper WP/07/158*.
- WHO. (1948). Constitution of the World Health Organization. *International Health Conference*. New York.
- World Bank. (2012). *Youth Employment Programs: An evaluation of World Bank and IFC support*. Independent Evaluation Group. Retrieved from <http://ieg.worldbankgroup.org>.
- World Bank. (2023). *The Human Capital Project*. Retrieved from <https://www.worldbank.org/en/publication/human-capital/brief/about-hcp>.
- World Bank (2014). *Lesotho at a Glance*. Accessed 23 March 2015. [http://devdata.worldbank.org/AAG/lso\\_aag.pdf](http://devdata.worldbank.org/AAG/lso_aag.pdf)
- World Bank, 2015, *World development indicators 2015*, Washington, DC, viewed 11 May 2018, from <http://documents.worldbank.org/curated/en/795941468338533334/World-development-indicators-2015>
- World Trade Organisation (1998a). Trade Policy Review: Kingdom of Lesotho. *Report No. WT/TPR/S/36*.
- World Trade Organisation (2014). *Annual Report*. WTO Geneva, Switzerland.
- World Trade Organisation, International Trade Centre and United Nations Conference of Trade and Development (2015). *World Tariff Profiles 2015*. Accessed 25 April 2015 [https://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tariff_profiles15_e.pdf)

## **CHAPTER TEN**

### **SWOT ANALYSIS FOR INTERNATIONAL TRADE IN LESOTHO**

**Tseko Nyesemane**

Frontier Services Department, Client Services Division, Revenue Services Lesotho

Email: [Nyesemane@gmail.com](mailto:Nyesemane@gmail.com)

&

**Marcel Ratsiu**

Keanaphuthi Solutions for Trade

Email: [marcel.ratsiu@gmail.com](mailto:marcel.ratsiu@gmail.com)



## 10.1 Background

International trade is the exchange of goods and services across international borders (Grozdanovska, et al., 2017). In addition to the sellers and buyers of goods and services, this exchange of goods and services is dependent on numerous stakeholders who include policy makers private sector actors and international organisations. International trade is governed by policies and agreements, with the World Trade Organisation serving as the primary body responsible for the establishing rules and mediating disputes (WTO, 1998). As an important aspect of the global economy, international trade encourages economic growth and development.

This chapter seeks to identify and analyse Lesotho's strengths, weaknesses, opportunities, and threats in the realm of international trade. Lesotho is a lower middle-income country wholly surrounded by the Republic of South Africa. It relies on South Africa for its international trade routes, the situation that is not always favourable for Lesotho based trading community. South Africa provides the transit corridors and routes for Lesotho's international trade. Figure 10.1, International Trade Statistics for Lesotho, provides a snapshot of international trade related statistics for Lesotho.

Through this analysis, which is also referred to as a SWOT Analysis, policy makers in Lesotho will be able determine the best strategy to navigate the maze of international trade in order to get benefits of strategic importance. To achieve this, the chapter will develop a SWOT analysis taking into consideration the preceding chapters. Section 2 will lay the foundation by examining the SWOT analysis and how it is carried out. Section 3 will look at the SWOT analysis for international trade in Lesotho and this will include taking into consideration the previous chapters. Section 4 will delve into the measures that can be taken to mitigate the effects of the weaknesses and threats while capitalising on the strengths and opportunities to boost international trade in Lesotho, and section 5 will conclude the chapter.



## 10.2 Introduction to SWOT Analysis

The origins of a SWOT can be traced back to the mid-1950s (Friesner, 2011). It has over time been used as a strategic tool and categorised as vital to achieving effecting business planning (Benzaghta *et al.*, 2021). SWOT, an acronym for strengths, weaknesses, opportunities and threats, comprises four quadrants which appraises an organisation's conditions, both internal and external (Thompson *et al.*, 2007). By analysing these conditions, policy makers and implementers are able to understand the best way to deal with threats and best ways to leverage on strengths. A SWOT can therefore be applied in all situations where strategic choice that leads to competitive advantage is desired. Gürel (2017), describes the four elements of a SWOT as:

**Strengths:** Internal attributes and resources that support a successful outcome.

**Weaknesses:** Internal attributes and resources that work against a successful outcome.

**Opportunities:** External factors that the entity can capitalise on or use to its advantage.

**Threats:** External factors that could jeopardise the entity's success.

In the SWOT undertaken below, the Strengths analysis of the SWOT have an opposite side, dealt with as Weaknesses. Similarly, the Opportunities have an opposite effect in the way in which Threats are dealt with. This analysis is important for Lesotho as she plays the international trade game in the face of the looming world economic growth slowdown which is projected to drop from the projected 3% to 2.4% (UNCTAD, 2023b). This slowdown requires robust and realistic policy measures to address emerging challenges

## 10.3 Strengths

### 10.3.1 Signatory to legal and institutional frameworks for international trade

Lesotho is a member to a number of trade arrangements at international, regional, and local levels. At the international front, Lesotho was a member of GATT from 1988, and in 1995 it became a member of the WTO. The WTO TFA entered into force on the 22<sup>nd</sup> of February 2017 following it gaining a two-thirds acceptance by 164 members of the WTO (WTO, 2023). Through its membership to the WTO, Lesotho hopes to benefit from the WTO TFA's objectives which are:

- a. To expedite the release of goods at international borders.
- b. To enhance cooperation and collaboration amongst Customs authorities.
- c. To empower developing countries and least-developed countries (LDCs) on customs and trade facilitation matters through provision of technical assistance and capacity building (TACB) (Peterson, 2020).

At the regional level, Lesotho is a member of both the Southern African Customs Union (SACU) and the Southern African Development Community (SADC) (IMF, 2022). Furthermore, as a SACU member Lesotho has trade agreements with various countries forming the European Free Trade Association (EFTA) (SARS, 2023). The EFTA member countries comprise the Republic of Iceland, the Principality of Liechtenstein, the Kingdom of Norway, and the Swiss Confederation.

Lesotho has also the following free trade arrangements and agreements:

- a) The European Union under the Economic Partnership Agreement (EPA) which is based on its membership to the SADC (EU, 2023).
- b) An FTA agreement with the UK based on its membership to the SACU (SACU, 2021).
- c) The African Continental Free Trade Area (AfCFTA).
- d) The Joint Bilateral Commission of Cooperation (JBCC) signed with South Africa
- e) FTA with the common market of the south known as MERCOSUR through SACU.

In addition, there is a non-reciprocal agreement which offers Lesotho based trade (exporters) to access foreign markets duty free and quota free. These include the Africa Growth Opportunity Act (AGOA) offered by the United States of America (Central Bank of Lesotho, 2011). Furthermore, Lesotho's exports under AGOA reached \$304.5 million in 2021 and the country is set to become one of the largest exporters of garments to the USA (USTR, 2021). Lesotho aims to strategically benefit from these trade arrangements, considering the fact that their purpose is to liberalise trade and to offer preferential trade routes and rates for members.

To support these trade agreements, Lesotho has put in place One Stop Business Facilitation Centre as a central facility to provide dedicated international trade services including registration of businesses, issuance of import permit among others (Lesotho Trade Portal, 2023). This is also in part a measure that complies with WTO TFA Article 3.1 on establishment of enquire points to support queries from the trading community. The ministry of trade and industry also has a dedicated website that guide trading community on information and documentation required to conduct business in Lesotho. As outlined in chapter dealing with the macro-economic environment, this is considered positive from a number of perspectives including partnership in monetary policy under the Common Monetary Area, which managed Lesotho's interest rates and inflation. The stability in these variables contribute to the competitiveness in international trade.

### **10.3.2 Strategic location**

Lesotho is wholly surrounded by South Africa, a major player in the international trade sphere and an influencer to the region for growth. In addition to being close to South Africa, Lesotho has access to other major markets, including the European Union (IMF, 2022). Due to this unique position of Lesotho, all her regional and international trade passes through South Africa, with access to South Africa's ports also guaranteed. South Africa's roads are considered some of the best on the African continent (GOL, 2018). The road and rail infrastructure on the corridors serving Lesotho are relatively in good condition. This provides assurance on facilitating international trade through timely delivery of imported and exported goods.

### **10.3.3 Government support**

The Lesotho government is committed to promoting international trade. It has a number of policies in place to promote exports and attract foreign investment. The National Strategic Development Plan (NSDP) II 2018/19 – 2022/23 placed emphasis on areas which would cause economic growth from themes that included international trade. The NDSP II even had a section which identified critical issues which hamper investment and placed strategies to counter them. This investment climate reforms agenda identified issues highlighted as

challenges under each of the topics forming the World Bank ease of doing business metric and devised how they would be resolved and enhanced.

In addition to the overall national strategy, the Lesotho government has legal instruments whose function is to support economic activity, such as those aimed at combating corruption. These include the Amendment of Prevention of Corruption and Economic Offences Act of 2006, the Money Laundering and Proceeds of Crime Act of 2008, which was amended in 2017 and the Public Financial Management and Accountability Act of 2011. These policy instruments are put in place to protect local infant industries, among others, in line with Article 25 of the SACU agreement, among others. Infant industry protection increases economic participation of Lesotho's growing industries (GOL, 2018).

#### **10.3.4 Lower cost of doing business**

The World Bank's Doing Business Report ranked Lesotho at number 122 out of 190 countries globally on the ease of doing business metric (World Bank, 2020). This metric ranks countries on how their regulatory environment plays a contributing factor to business operations. The regulatory environment positively contributes to economic activity when the rules of business engagement are clear and transparent. Despite ranking lower than the average, Lesotho scored high on some of the component metrics making the overall score, notching 40 on the Trading Across Borders and 84 on the Starting a Business metrics, respectively. These metrics directly link to international trade.

Additionally, within the tax domain Lesotho has reasonable tax policies by the number of taxes and the magnitude of tax. This is in addition to Lesotho being credited with having core components for a modern tax system (IMF, 2022). The number of taxes in Lesotho (32) is lower than the average in Southern Africa (37) (World Bank, 2023). Another highlight is the low rate of the Company Income Tax (CIT), which is 25% which also ranks as one of the lowest in the region (IMF, 2022). Furthermore, according to the Lesotho VAT Act, all exports are charged VAT at the rate of 0%. These tax matters translate to the view that Lesotho tax system competes favourably with competing countries.

#### **10.3.5 Human capital**

The WTO (2023) defines human capacity as the professionals that provide expertise and advise to the government on WTO matters and by large the broad sphere of world trading systems, logistics, supply chains and markets. Lesotho has a number of experts, both in the diaspora and within the country who can provide the expertise and advice to the government on international trade matters. This strength, however, should be channelled into strategic national value.

### **10.4 Weaknesses**

#### **10.4.1 Slow progress in implementing legal and institutional framework obligations.**

The WTO Trade Facilitation Agreement (TFA) is legally binding for individual members. However, since the ratification of this agreement Lesotho's implementation of its commitments remains low, with only up to 40% of the total WTO TFA measures implemented (WTO, 2023c). This percentage score ranks the country number 13 out of 15 SADC member states and number 4 out of 5 SACU member states, making it one of the slowest implementers in the region. It

has been reported that slow implementation of WTO TFA measures has the potential to lead to the following (de Melo, et al., 2023):

- a. Reduced trade flows: the TFA is estimated to contribute to global trade growth. Slow implementation of the TFA measures lead to a miss out on the contribution.
- b. Reduced trade costs: The TFA reduces trade costs. This is achieved through simplifying and streamlining customs procedures and other trade-related formalities. Slow implementation of the TFA leads to sustained high trade costs.
- c. Reduced competitiveness: Implementation of the TFA reduces business costs and guarantees that commodities get to the market quicker which leads to more competition.
- d. Reduced economic growth and development: Implementation of the TFA leads to a reduction of trade costs which in turn increases trade. When countries are slow to implement TFA they miss out on this benefit.

#### **10.4.2 Heavy reliance on imports**

Lesotho's economy is heavily reliant on imports, particularly in its key industries. Lesotho has accumulated a negative balance of trade as a result of this phenomenon. In 2022, figures show that the country's exports were US\$948,535.19 against a total import of US\$1,667,948.70, resulting in a trade balance of negative US\$719,413.51 (Trading Economics, 2023). International Trade Centre (2021) reported that Lesotho's exports mainly comprise of textiles (43.4%), diamonds (34.8%, wool (6.3%) and other miscellaneous commodities. She imports food (80%), fuel (which ranks at 15.41% of total imports), electrical machinery, fabrics, vehicles, machinery, cotton, and medicines. This reliance and a negative balance of trade is unfavourable to her international trade endeavours.

#### **10.4.3 Low industry base**

It has been argued that industrialisation plays a fundamental role to economic development and facilitate sustainable international trade for exporting or importing industries (UNIDO, 2020). It is also linked to Sustainable Development Goal (SDGs) directly and indirectly (UNIDO, 2020). Lesotho also has a low industrial base, with a limited basket of goods exported to the international and regional market, therefore limiting its export potential. Even with the limited industrial base in the country, the majority of raw materials are also imported, further weakening local value chains and vertical integration. The net effect further gripped Lesotho's international trade prospects.

#### **10.4.4 Poor infrastructure**

According to the WTO (2023c), infrastructure refers to the physical set up required for trade to happen. This encompasses all air, sea, and land transportation networks as well as telecommunications including financial services (Work Bank, 2023). The World Bank further argues that inefficient transportation and logistics networks, poor infrastructure, and telecommunication lead to low global competitiveness in many countries. Olarreaga. (2016) also adds that investment in infrastructure leads to positive impact on both the domestics and international trade. Quality of such infrastructure also enables expeditious access to key markets for goods and services.

As indicated by Han and Li (2022), investment in infrastructure leads to job creation and investment payoffs. This view corroborates with Coughlin and Novy (2021), who highlight that good infrastructure boosts international trade flows. Lesotho's infrastructure is underdeveloped, with its road quality bad and telecommunications quality low (GOL, 2022). This poor state of infrastructure has the potential to negatively impact international trade. A quick review of the literature suggests that international trade and investments in infrastructure promote development, and that this relationship is reinforced by the positive impact that investments in both domestic and international infrastructure have on international trade.

#### **10.4.5 Weak supply chains and logistics**

Supply chain and logistics operations are about the management of the flow of materials, the flow of information and the flow of finances between consumers and suppliers. A successful business supply chain relies predominantly on the alignment of internal and external environment for businesses (Emiliani, 2000). This is evidently difficult to achieve, largely due to the complexity nature of business relationships between different enterprises, as well as the volatile market conditions for products. Supply chains in an enterprise fulfils four basic functions of competitive goals, namely, planning, sourcing, making and deliver (ASCM, 2022). Supply chain management is a crucial component of strategic decision making in any successful enterprise.

Lesotho by its geographical location is prone to supply chain bottlenecks caused by competitive sourcing of raw materials especially for SMME. As a land locked country, Lesotho depends on South African road, rail and air freight infrastructure to trade with the rest of the world. The supply chains challenges faced by Lesotho enterprises are linked to South Africa's efficiencies or lack thereof. This dependency over the years has exposed Lesotho's international trade to multi-transit challenges including arbitrary border inspections, transit checkpoints, as well as border crossings delays.

#### **10.4.6 Weak institutional capacity**

There are key institutions that play a pivotal role in international trade. These include customs administration, chambers of commerce, bureau of standards, and others. The capacity and efficiency of these institutions determine the ability of exporters and importers to access their markets. While Lesotho Customs is automated and offers a wide range of services including Single Window environment, there remains a number of bottlenecks faced by small scale traders doing cross-border trade (Sudarkasa & Ratsiu, 2021). The challenges include lack of information on import and export documentary requirement, integrity problems with some border officials. Furthermore, while Lesotho Standards Institute is a body aimed at governing standards in the country, there has been a slow progress to provide product certification in a wide range of products to be exported from the country. This has a knock-on effect in the timeliness and quality assurance of the trading community.

#### **10.4.7 Unemployed Youth**

According to World Bank (2021), 45% of the youth are neither employed nor engaged in education. This is a high average, given that Lesotho's youth population accounts for 40% of the country's total population (World Bank, 2023). Investing in human talent is considered one

of the most important pillars towards growth and productivity (World Bank, 2023). Such a high percentage of the youth who are not being trained for the future and who do not participate in economic activities is a grievous loss.

## **10.5 Opportunities**

### **10.5.1 Young Population**

While Lesotho's population is considered youthful and being at 40% of the country's total population (World Bank, 2023), this presents an opportunity on the productive force and labour that is abundance in the country. This opportunity should be harnessed through job creation in youth driven sectors such as agriculture. The youth is considered the most productive asset, in the form of human capital, that a country can have (United Nations, 2018). If well managed, this asset can provide strategic benefits for Lesotho, including labour force availability. When this labour force participates in the productive activities the country stands to benefit economically, including through international trade. In addition, a high youth population can lead to a growing domestic consumer market for commodities unique for the specific age group consumption patterns therefore stimulating demand for these types of commodities, and as a result positively impacting on international trade through imports of the said goods. The World Bank (2021), points out that Basotho youth ranked high on measure on personality traits associated with business performance, including entrepreneurship. This youthful population then has potential to promote entrepreneurship including for export commodities.

### **10.5.2 Member to RECs: SACU**

Lesotho is a member to the oldest Customs union, that of SACU (SACU,2023). SACU member states have over time undertaken a Customs modernisation programme involving a number of initiatives. These are risk management, automation and authorised Economic Operators (AEO), amongst others (SACU, 2023).

In 2023 SACU member states signed a mutual recognition agreement on the AEO, which is a Customs – Business partnership programme. The benefits to be derived from this arrangement include lowering of trade costs, quicker turnaround times and faster release at border posts. This programme enhances trade facilitation, therefore, and therefore impacts international trade positively.

Being a SACU member state also helps Lesotho's international trade agenda because the country does not need to negotiate its own trade agreement. Because SACU is a Customs union, it means very few documentation requirements for intra trade arrangement. For example, a document such as certificate of origin is not required for trade among SACU member States (SACU, 2023).

### **10.5.3 Investment opportunities**

Lesotho offers a number of investment opportunities in the mining, agriculture, and tourism sectors. In the mining sector, Lesotho has produced some of the biggest diamonds (GAN, 2022). There are opportunities to explore in the mining sector value chains, such as investing



in diamond polishing. In the water sector, Lesotho has the purest water sources of any country globally (GAN, 2022). The country has been selling bulk water to South Africa mainly from the two large dams, Katse Dam and Mohale Dam. Lesotho is also currently investing in the construction of a new dam, the Polihali Dam, whose water will also be sold to South Africa. The investment opportunities in the water sector include electricity generation and bottling of drinking water. As mentioned under Weaknesses, Lesotho has important international markets yet due to limited industrial base, these markets are not fully exploited. Increasing investment in sectors with limited products would be a strategic opportunity. AGOA and EU-SADC-EPA and SACU and Mozambique UK EPA all provide duty free quota free market access and Lesotho can use these agreements to increase its market access.

#### **10.5.4 Niche products**

Lesotho can capitalize on its unique geographic situation of high altitude and cool to cold conditions to harness and create comparative advantage led products. These unique geographic conditions are ideal for aquaculture and horticulture production. In the aquaculture space, specific cold-water fish can be harvested for export, while in the horticulture space niche products like medical cannabis can lead to positive spin offs from international trade. In addition, Lesotho's ability to benefit in these products is almost guaranteed because it has tariff-free access to several international markets (ITC, 2020). The country can also boost its trade by adding value to its raw materials. For example, Lesotho could process agricultural products into canned goods or textile products.

#### **10.5.5 Electricity Generation**

Due to its unique positioning, Lesotho can lead the region on renewable energy production. In 2021 only 47% of households in Lesotho had access to electricity (ITA, 2021). Government is planning to increase access to electricity to 75% of the households, hydropower, wind generation, and solar power, and these are potential renewable energy sources. Lesotho's generation capacity stood at 72 megawatts of hydropower, generated through the 'Muela Hydropower plant (UNDP, 2020). However, it has been shown that Lesotho has the potential to produce 450 MW in hydropower and several hundred more with wind power (UNDP, 2020). With neighbouring South Africa feeling the negative effects of low electricity supply, Lesotho can take this opportunity to produce renewable electricity for export to South Africa and other countries in the region.

#### **10.5.6 Trade facilitation for small and medium enterprises**

A few years ago, the informal sector in Lesotho was regarded as one of the fastest growing sectors in the country in terms of new entrants and nature of business being operated (Chingono, 2016). The informal sector includes small traders who undertake cross-border trade (Lapukeni, 2015). Despite this growth and the assumed benefits associated with the informal sector, in the context of Africa, this sector is generally neither registered nor tax compliant (Lewis, 2023). Studies have shown that informal cross-border trade contributes to the macroeconomic and social objectives and accounts for 30 – 72% of total intra-Africa trade (ECA, 2023), and provides income to 70% of Africa's total population (UNCTAD, 2022).

The AfCFTA was launched in January 2021. It is the world's largest free trade area in terms of the number of participating countries. The AfCFTA has a major opportunity to enhance competitiveness within the continent and in the global market, stimulate growth and structural transformation, as well as achieve sustainable and inclusive socio-economic development. According to the World Bank (2023), the AfCFTA, which connects 1.3 billion Africans, is expected to lift 30 million people out of extreme poverty and boost the incomes of nearly 68 million others who live on less than \$5.50 a day, as well as spur larger wage gains for women (10.5 per cent) than that for men (9.9 per cent). The AfCFTA has not been fully operationalised on the continent due to outstanding work on tariffs and rules of origin. It is estimated that the AfCFTA has the potential to increase intra-African trade by around US\$450 billion in income (Ngom, 2023). The increase in trade has the potential to impact positively on trade, especially in the informal sector through increasing access to trade for women and youth. UNECA (2023) observed that around 70% of the informal cross border traders are women. These workers are likely to benefit due to factors such as the elimination of tariffs, the timely settling of disputes and the protection of women traders. Having ratified the AfCFTA in 2020 (TRALAC, 2023), Lesotho's informal sector needs to start trading under the AfCFTA so as to also gain from these identified benefits.

## **10.6 Threats**

### **10.6.1 Global economic downturn**

According to the World Bank, the world is expected to face an economic downturn, with global output estimated at 1.7% in 2023. which will impact on developing countries like Lesotho (World Bank, 2023). The downturn is attributed to a number of reasons, which include the long-term effects of COVID-19 pandemic related lockdowns and the Russia and Ukraine war. The World Bank (2023) states that this weakening outlook is exhibited by falling consumer sentiments. Furthermore, developing countries face financial difficulties and stress which is characterised by rapid capital outflows, currency depreciation, and difficulty servicing debt (Kose et al., 2022). These challenges have the potential to reduce demand for Lesotho's exports.

### **10.6.2 Climate Change**

Climate change has been changing over time for the worst. Emerging weather patterns contribute to unwanted weather events such as heat waves, floods and temperatures that are lower or higher than normal. The World Bank (2023), reports that these changing weather patterns have the potential to lead to populated areas uninhabitable. These patterns can also lead to lower productivity.

### **10.6.3 Political instability**

Political instability in the country, in the region, and globally can lead to disruptions in trade and investment. In the past years, Lesotho has had unplanned changes in government due to political infights in the political parties forming government (ISS, 2023). Global political instability, including the Russia-Ukraine war and the Middle East conflict of Israel and Palestine, has the potential to negatively impact international trade in Lesotho. It has been reported that one of the effects of the Russia-Ukraine war has led to volatile and elevated commodity and energy prices (UN, 2023).

#### **10.6.4 Lesotho being a landlocked country.**

Landlocked countries face challenges including lack of access to maritime transport and the need for goods to transit through other countries based on the distance between their frontiers and to the coast. This affects landlocked countries development external trade policies. Furthermore, land locked countries have to navigate cross border politics and negotiate best terms to guarantee faster flow of traffic and goods with their neighbours (Faye et al., 2004). In addition, landlocked countries are dependent on their neighbours' political peace and stability, which, if not present, may hamper the movement of transit goods.

According to Human Rights Watch (2019), more than 200 people comprising mainly of truck drivers were killed in South Africa. This was in addition to other incidences of violence, intimidation, and harassment. According to the *Mail and Guardian* (2023), 21 trucks were torched and burnt down along South Africa's major highways N2, N3, and N4, a phenomenon attributed to political games and xenophobia. Since Lesotho is wholly surrounded by South Africa, these issues presented above all hold, especially when utilising routes to the Indian ocean maritime in Durban.

#### **10.6.5 Low levels of competitiveness**

Survival in the globally interconnected international trading system rests on ability for firms to offer quality products at competitive prices. Prices are determined by costs of producing goods/services. Factors contributing to cost of production include prices of utilities, skilled workforce, cost, and availability of trade infrastructure (transportation, financial, information and technology service), regulatory robustness, as well as manufacturing and production technologies. Lesotho's private sector technology robustness is considered immature, with limited access to skilled workforce, especially for SMMEs communities.

A hand hygiene sectoral analysis conducted in Lesotho revealed that the majority of local producers face difficulties in competing with foreign brands on major retail shelves (UNICEF & WHO, 2021). Major reasons included high costs of production driven by limited access to suitable production technology, transportation, and logistics services. For SMMEs in particular, access to supply chain knowledge and expertise limits these firms to fully exploit global supply chain networks. Furthermore, there are limited local product certification services in Lesotho, which leads to an increase in costs related to certification services as they are sourced from outside the country, predominantly from South Africa, since the Lesotho Standards Institute is still finding its footprint and does not yet cover all sectors for product certification.

### **10.7 Way forward**

Lesotho has a number of strengths and opportunities that it can use to boost its international trade. It does, however, faces some weaknesses and threats that it needs to address. Lesotho must invest in infrastructure, improve the various metrics that comprise doing business expenditure, invest in both formal and vocational education, and develop and implement export led businesses.

This chapter has demonstrated that in Lesotho more effort is needed to offer the trading community tangible benefits and facilities in order to industrial development and international trade. As espoused by UNIDO (2020), a key to international trade is solid industrial base and

a thriving manufacturing sector. In addition, a solid manufacturing sector needs a strong innovation, technological update, and skill development.

## References

- Benzaghta, M. A., Elwalda, A., Mousa, M. M., Erkan, I., & Rahman, M. (2021). SWOT analysis applications: An integrative literature review. *Journal of Global Business Insights*, 6(1), 55–73. <https://doi.org/10.5038/2640-6489.6.1.1148>
- Camerinelli, E. (2009). *Measuring the Value of the Supply Chain: Linking Financial Performance and Supply Chain Decisions*. Surrey, Gower Publishing limited.
- Central Bank of Lesotho. (2011). *Africa Growth and Opportunities Act (AGOA): Economic Impact and Future Prospects*.  
[https://www.centralbank.org.ls/images/Publications/Research/Reports/MonthlyEconomicReviews/2011/Econo\\_Review\\_June\\_2011.pdf](https://www.centralbank.org.ls/images/Publications/Research/Reports/MonthlyEconomicReviews/2011/Econo_Review_June_2011.pdf)
- Coughlin, C., & Novy, D. (2021). Estimating border effects: The impact of spatial aggregation. *Internat. Econom. Rev.* 62 (4), 1453–1487. <http://dx.doi.org/10.1111/IERE.12520>.
- de Melo, J., Sorgho, Z. & Wagner, L. (2023). Reduced time at customs through implementing the Trade Facilitation Agreement (TFA) would be a significant boost to intra-African trade for AfCFTA countries. <https://hal.science/hal-04141534/document>
- ECA. (2023). *Measuring informal cross-border trade is key to monitoring intra-African Trade*.  
<https://www.uneca.org/stories/measuring-informal-cross-border-trade-is-key-to-monitoring-intra-african-trade>
- Emiliani, M. L. (2000), Supporting small businesses in their transition to lean production. *Supply Chain Management*, 5(2):66.
- European Commission. (2023). *Economic Partnership Agreements (EPAs)*.  
<https://trade.ec.europa.eu/access-to-markets/en/content/economic-partnership-agreements-epas>
- Fox, M.S., Chionglo, J.F. & Barbuceanu, M. (1993). *The integrated supply chain management system*. Technical report, Department of Industrial Engineering, Toronto.
- Friesner, Tim. (2011). *History of swot analysis*. Marketing Teacher. 2000-2010.
- GAN. (2022). *Attractive opportunities in the manufacturing sector available in Lesotho*  
<https://www.globalafricanetwork.com/sadc/invest-in-lesotho/#:~:text=The%20country%20is%20exploring%20further,quarrying%20and%20harnessing%20water%20resources.>
- GEM Diamonds. (2023). *Our famous diamonds*. <https://www.gemdiamonds.com/our-famous-diamonds.php>
- GOL. (2022). *Lesotho identifies infrastructure development projects to revive economy*.  
<https://www.gov.ls/lesotho-identifies-infrastructure-development-projects-to-revive-economy/>
- GOL. (2018). *National Strategic Development Plan II*  
<https://www.gov.ls/wp-content/uploads/2021/06/National-Strategic-Development-Plan-II-2018-19-2022-23.pdf>
- Grozdanovska, Vesna & Jankulovski, Nikolche & Bojkovska, Katerina. (2017). *International Business and Trade*. *International Journal of Sciences: Basic and Applied Research (IJSBAR)*. 31. 105-114.

- Gürel, Emet. (2017). SWOT Analysis: A Theoretical Review. *Journal of International Social Research*. 10. 994-1006. 10.17719/jisr.2017.1832.
- Han, Z., & Li, H. (2022). Transportation infrastructure and trade. *Japan and the World Economy*, 64:101162.
- Human Rights Watch. (2023). South Africa: Deadly Attacks on Foreign Truck Drivers <https://www.hrw.org/news/2019/08/26/south-africa-deadly-attacks-foreign-truck-drivers>
- IMF. (2020). *Kingdom of Lesotho: Selected Issues*. <https://doi.org/10.5089/9798400212918.002>
- Ismail, N. W., & J. M. Mahyideen. (2015). The Impact of Infrastructure on Trade and Economic Growth in Selected Economies in Asia. ADBI Working Paper 553. Tokyo: Asian Development Bank Institute. <https://www.adb.org/sites/default/files/publication/177093/adbi-wp553.pdf>
- ISS. (2023). Back to square one: political infighting again stalls Lesotho reforms. <https://issafrica.org/iss-today/back-to-square-one-political-infighting-again-stalls-lesotho-reforms>
- ITA. (2020). Diversifying for new markets: Lesotho's new trade strategy <https://intracen.org/news-and-events/news/diversifying-for-new-markets-lesothos-new-trade-strategy>
- ITA. (2021). Lesotho - Country Commercial Guide. <https://www.trade.gov/country-commercial-guides/lesotho-renewable-energy>
- Kose, M. A., S. Kurlat, F. Ohnsorge, & N. Sugawara. (2022). A Cross-Country Database of Fiscal Space. *Journal of International Money and Finance*, 128 (November): 102682.
- M&G. (2023). Truck drivers condemn torchings. <https://mg.co.za/news/2023-07-14-truck-drivers-condemn-torchings/>
- Michael L. Faye, John W. McArthur, Jeffrey D. Sachs & Thomas Snow. (2004). The Challenges Facing Landlocked Developing Countries, *Journal of Human Development*, 5:1, 31-68, DOI: 10.1080/14649880310001660201
- Ngom, M. (2023). *AfCFTA: Reaping the benefits of the world's most youth and women-friendly trade agreement*. Africa Renewal. United Nations. <https://www.un.org/africarenewal/magazine/february-2023/afcfta-reaping-benefits-world's-most-youth-and-women-friendly-trade-agreement#:~:text=The%20World%20Bank%20estimates%20that,%2429%20trillion%20mark%20by%202050.>
- Olarreaga, M. (2016). Trade, Infrastructure, and Development. ADBI Working Paper 626. Tokyo: Asian Development Bank Institute. <https://www.adb.org/sites/default/files/publication/218316/adbi-wp626.pdf>
- Peterson, J. (2020). The WTO Trade Facilitation Agreement: Implementation Status and Next Steps. *Journal of International Commerce and Economics*, December 2020. [http://www.usitc.gov/journals/jice\\_home.htm](http://www.usitc.gov/journals/jice_home.htm).
- SACU. (2023). SACU members sign mutual recognition arrangement. <https://www.sacu.int/docs/pr/2023/SACU-AEO-Media-Release.pdf>
- SARS. (2023). EFTA background <https://www.sars.gov.za/legal-counsel/international-treaties-agreements/trade-agreements/efta->

- [sacu/#:~:text=The%20EFTA%2DSACU%20free%20trade%20agreement%20has%20been%20concluded%20between,by%20publication%20in%20Notice%20R.](#)
- Sudarkasa, M., & Ratsiu, M. (2021). A Rapid Needs Assessment on Informal Cross-Border Trade (ICBT) in Lesotho During the COVID-19 Pandemic
- Thompson, A. A., Strickland, A. J. & Gamble, J. E. (2007). *Crafting and Executing Strategy- Concepts and Cases*, (15th Edition), USA: McGrawHill/Irwin
- Trading Economics. 2023. Lesotho Imports. <https://tradingeconomics.com/lesotho/imports#:~:text=Lesotho%20main%20imports%20are%3A%20food,fuel%2C%20machinery%20and%20building%20materials>
- TRALAC. (2023). The African Continental Free Trade Area Ratification Barometer. <https://www.tralac.org/documents/resources/infographics/2605-status-of-afcfta-ratification/file.html>
- The Global Economy. (2019). *Roads quality - Country rankings*. [https://www.theglobaleconomy.com/rankings/roads\\_quality/Africa/#:~:text=Roads%20quality%20%2D%20Country%20rankings&text=The%20average%20for%202019%20based,was%20in%20Chad%3A%201.9%20points](https://www.theglobaleconomy.com/rankings/roads_quality/Africa/#:~:text=Roads%20quality%20%2D%20Country%20rankings&text=The%20average%20for%202019%20based,was%20in%20Chad%3A%201.9%20points).
- UN. (2018). Youth 2023: Working with and for the young people. [https://www.un.org/youthenvoy/wp-content/uploads/2018/09/18-00080\\_UN-Youth-Strategy\\_Web.pdf](https://www.un.org/youthenvoy/wp-content/uploads/2018/09/18-00080_UN-Youth-Strategy_Web.pdf).
- UN. (2023). One year of the war in Ukraine leaves lasting scars on the global economy. <https://www.un.org/en/desa/one-year-war-ukraine-leaves-lasting-scars-global-economy#:~:text=The%20war%20has%20contributed%20to,many%20regions%20across%20the%20world>.
- UNECA. (2023). *Essay Series on Gender and Trade Series 1: Trade Facilitation* <https://repository.uneca.org/bitstream/handle/10855/49479/b12027777.pdf?sequence=1&isAllowed=y>
- UNDP. (2020). Lesotho: Energy and the poor unpacking the investment case for clean energy. <https://www.undp.org/sites/g/files/zskgke326/files/publications/UNDP-UNCDF-Lesotho-Energy-and-the-Poor.pdf>
- UNCTAD. (2023b). *Trade and Development Report. Growth, Debt, and Climate: Realigning the Global Financial Architecture*. [https://unctad.org/system/files/official-document/tdr2023\\_en.pdf](https://unctad.org/system/files/official-document/tdr2023_en.pdf)
- UNCTAD, (2022). Informal cross-border trade for empowerment of women, economic development and regional integration in Eastern and Southern Africa. <https://unctad.org/news/supporting-post-covid-19-recovery-among-african-cross-border-traders>
- World Bank. (2020). *Economy Profile Lesotho: Doing Business*. <https://archive.doingbusiness.org/content/dam/doingBusiness/country/l/lesotho/LSO.pdf>
- World Bank. (2021). A survey of young Basotho's aspirations and challenges. <https://documents1.worldbank.org/curated/en/099082423053535899/pdf/P1685080bd9cbe00a0826904e15b5628526.pdf>
- World Bank. (2023a). *Global Economic Prospects*.

<https://openknowledge.worldbank.org/server/api/core/bitstreams/254aba87-dfeb-5b5c-b00a-727d04ade275/content>

World Bank. (2023b). World Bank Presents the Findings of the Youth Aspirations Survey and Gender Assessment in Lesotho.

<https://www.worldbank.org/en/news/press-release/2023/08/29/world-bank-presents-the-findings-of-the-youth-aspirations-survey-and-gender-assessment-in-af-lesotho#:~:text=The%20young%20population%20of%20Lesotho,employment%2C%20education%2C%20or%20training>.

World Bank (2023c) Connectivity, Logistics & Trade Facilitation

<https://www.worldbank.org/en/topic/trade-facilitation-and-logistics>

WTO. (1998). Golden jubilee of the multilateral trading system.

[https://www.wto.org/english/news\\_e/pres98\\_e/pr88\\_e.htm](https://www.wto.org/english/news_e/pres98_e/pr88_e.htm)

WTO. (2023a). Trade Profiles 2023.

[https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_profiles23\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_profiles23_e.pdf)

WTO. (2023b). WTO in brief.

[https://www.wto.org/english/thewto\\_e/whatis\\_e/inbrief\\_e/inbr\\_e.pdf](https://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr_e.pdf)

WTO. (2023c). Trade facilitation measures most commonly needing implementation assistance spotlighted. [https://www.wto.org/english/news\\_e/news23\\_e/fac\\_05oct23\\_e.htm](https://www.wto.org/english/news_e/news23_e/fac_05oct23_e.htm)