The Role of International Trade in Lesotho's Economic Growth: A Review

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Abstract: This paper investigates the role of international trade in Lesotho's economy. Over the years, the increasing role of international trade in the economy of Lesotho has become evident, particularly with the impetus from the country's export sector. An exploratory review approach has been used in this paper, in which the discussion mainly focuses on Lesotho's economic growth policy, trade policy, trends in economic growth, and trade performance. The findings point to the connection between Lesotho's economic growth and exports from the manufacturing sector, which driven by trade privileges. There is a further indication from this review that Lesotho's growth policy has been largely shaped by the country's need to pursue export-led growth and private-sector led growth. In recent years, developments in the country's trade policy have moved towards the implementation of a more liberal trade approach, as opposed to the initial import substitution industrialisation that Lesotho adopted in the 1960s. This change in trade policy has resulted in an enforcement of measures that have helped to enhance policy-driven trade. The graphical analysis shows that, generally, trends in Lesotho's economic growth correspond to the performance of the country's trade sector. Nevertheless, while international trade has made some significant contributions to Lesotho's economic growth, a heavy reliance on manufactured exports, which are known to be volatile to global economic downturns, poses some challenges to the country. Therefore, it is recommended that Lesotho relies on a wider range of exports, rather than manufactured exports, in order to strengthen trade-related growth in the country.

Keywords: trade policy; export-led growth; private sector-led economic growth; trade performance; Lesotho

JEL Classification: F43

1. Introduction

The extent of the positive effects of international trade remains an issue of concern, particularly for those economies faced with limited sources of economic growth. Frankel and Romer (1999) posit that international trade does have a quantitatively large and robust positive effect on income; although, the direction of causality between the two is not clear. Lesotho has benefited from international trade for

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some time, particularly in the light of trade privileges that have been introduced since the beginning of the past decade. Evidence shows that following the inception of trade privileges and concessions on textiles under the Africa Growth and Opportunity Act (AGOA) in the year 2000, exports, particularly of manufactured goods, have accounted for a larger share in Lesotho’s economy (see Mokhethi & Vögel, 2015).

Trends in Lesotho’s trade flows show that there have been marked disparities in the contribution of exports in gross domestic product (GDP) in comparison to that of imports in GDP, whereby imports have always accounted for a larger share in GDP. Between 1960 and 1970 for instance, exports accounted for barely 20 percent in GDP while the share of imports in GDP imports remained above 40 percent (World Bank, 2014). However, in recent years, there has been a stronger growth in the share of exports in GDP, the same applying to that of imports.

Evidence shows that by the fourth quarter of 2015, Lesotho’s exports accounted for 50.6 per cent of GDP, compared to the 44.9 per cent recorded in the fourth quarter of 2010 (Central Bank of Lesotho, 2015 and Central Bank of Lesotho, 2010b). During the fourth quarter of 2015, imports, accounted for 97.5 per cent in GDP, compared to 86.2 per cent share in 2010. Given the growing share of exports in GDP, Lesotho’s export industries continue to be important drivers of the economy (Central Bank of Lesotho, 2010a). On the other hand, the rising share of imports in GDP signifies Lesotho’s heavy dependence on imported goods (Central Bank of Lesotho, 2015).

Looking at Lesotho’s economic growth, since its independence in 1966, a number of factors have led to the country’s international trade being closely linked to improvements in its economic achievements. Some of the contributing factors to Lesotho’s economic achievements are the structural reforms, which have to some degree assisted in improving the external competitiveness in the country. Like other small countries in the Southern African Common Monetary Area, Lesotho relies heavily on structural reforms to improve its external competitiveness and to achieve sustainable growth (Wang et al., 2007).

By tracing Lesotho’s structural reforms since its independence in 1966, it can be shown that the adoption of an export-led growth strategy from that time has enabled the country’s products to reach bigger and wider world markets. Moreover, the implementation of National Development Plans, that also took place after independence, have made it possible for development plans to act as instruments for the execution of Lesotho’s future growth strategy (World Bank, 1975). Through the use of development plans, Lesotho has been able to address, among other things, trade-related matters, especially on key issues that affect the non-agricultural sectors. The third contributing factor has been the mobilisation of the Lesotho National Development Corporation, through which Lesotho has been able to divert its resources towards assisting its manufacturing and processing industries (World Trade Organisation, 1998b).

Apart from development plans, other strategic frameworks that were implemented in Lesotho over the past two decades have also allowed for developments in the country's trade sector to be transmitted to various sections of the economy the economy. These frameworks include: the Vision 2020, the Poverty Reduction Strategy, the Interim National Development Framework and the National Strategic Plan. These are discussed in the subsequent section of this article.

Against the above background, in this article, we examine the relationship between international trade in Lesotho, with reference to Lesotho's growth policy, and its trade policy, as well as the trends in its economic growth and in its trade flows. An important contribution of this article is that, unlike previous studies that limited their discussion to export constraints (see Mokhethi &Vögel, 2015), or to apparel manufacturers (see Seidman, 2009), the current study extends the existing reviews by tracing the relationship between trade openness and economic growth in Lesotho, while also identifying the factors that affect Lesotho's trade flows. The current study also addresses how these factors pose a challenge to Lesotho's economic growth – an issue that to the best of our knowledge – has not been adequately addressed by previous studies.

This paper is divided into six sections, including the introduction. After the introduction, section two of the paper discusses Lesotho's strategic frameworks, economic growth policies and trends. Section three discusses trade policy and external competitiveness in Lesotho; and this is followed by a discussion on trade regimes in section four. Thereafter, section five discusses trade sector performance; while section six concludes the study.

2. Strategic Frameworks, Economic Growth Policies and Trends in Lesotho

2.1 Strategic Frameworks

Most of Lesotho's strategic frameworks were adopted from the beginning of 2000, with the aim of establishing medium-term and long-term visions for Lesotho**.** One of such frameworks is Lesotho's Vision 2020, which was formulated in 2000 with aim to facilitate the achievement of sustainable development and growth in Lesotho. Among other strategic actions, Vision 2020 puts emphasis on the strengthening of investment and trade capacity as well as the diversification of Lesotho's exports market (Kingdom of Lesotho, 2000). Following the adoption of the Vision 2020, the introduction of the Poverty Reduction Strategy in 2004 brought a different dimension to the articulation of trade-related matters in Lesotho.

In the area of trade, Lesotho's Poverty Reduction Strategy emphasised two things, which are the importance of eradicating constraints to Lesotho's trade and industry, as well as the relevance of various trade agreements in Lesotho. The strategy also identified four critical trade agreements that could assist the economy in its poverty reduction initiatives. These trade agreements are the Africa Growth and Opportunity Act (AGOA), the Multifibre Agreement, the European Union-Republic of South Africa Free Trade Agreement, and the Sothern African Development Community (SADC) Free Trade Agreement. Overall, the Poverty reduction Strategy acknowledged that in order to achieve the goal of poverty reduction, Lesotho's policy formulation should assist in creating an environment that enables international trade (Kingdom of Lesotho, 2004).

Following the termination of the Poverty Reduction Strategy in 2008, an Interim National Development Framework was developed, which was set out to operate from the fiscal year 2009/10 to 2010/11. The primary aim of the Interim Development Framework was to assist in the attainment of significant private sector-led economic growth. In order to achieve this objective, it became critical that Lesotho sought to promote an environment that is conducive to private sector investment. Moreover, in pursuit of private sector-led growth, it also became imperative for Lesotho's policies to address the removal of constraints to private sector investment (Kingdom of Lesotho, 2009).

After the Interim National Development Framework, the National Strategic Development Plan was implemented for operation during the period 2012/13 until 2016/17. This Plan served as an implementation strategy for the National Vision 2020 (International Monetary Fund, 2012). On international trade, the National Strategic Development Plan highlights the need to enhance productive capacity, export market diversification, as well as trade and investment promotion (Kingdom of Lesotho, 2012).

Despite the implementation of these various frameworks, it has become obvious that some of the goals that are outlined in Lesotho's strategic frameworks need to be complemented by other strategies. In particular, alongside the strategic objectives of the National Strategic Development Plan 2012/13 – 2016/17, Lesotho still needs to supplement its small domestic market with an export-oriented strategy (Central Bank of Lesotho, 2012). However, the challenge with the enforcement of an enhanced export-oriented strategy is that some sectoral changes would also need to be considered. Among other sectoral changes, the removal of some of the binding supply-side constraints to the major growth sectors becomes absolutely necessary in Lesotho (International Monetary Fund, 2012).

2. Economic Growth Policies and Trends in Economic Growth in Lesotho

2.1 Economic Growth Policies in Lesotho

Lesotho's economic growth has been transformed by the different strategies that the country has adopted in order to address sustainable growth and development matters. These strategies include the Poverty Reduction Strategy, the Interim National Development Framework, the National Strategic Development Plan and the Vision 2020. Between 2004 and 2007, Lesotho implemented the Poverty Reduction Strategy Paper with the view to eliminating internal constraints to economic growth. At that time, it became evident that in order for Lesotho to attain increased growth, it was necessary for the country to improve the provision of basic infrastructure and productivity of labour, and also to enhance investment promotion (Kingdom of Lesotho, 2004).

During the period 2009-2011 the Interim National Development Framework came into force in Lesotho. This framework placed a strong emphasis on the need to pursue private sector-led growth. However, the attainment of private sector-led growth needed to be supplemented with appropriate measures. As a result, four measures were developed to address key issues relating to private sector-led growth. The first measure addressed the promotion of private sector investment through the removal of potential constraints. The other measure put emphasis on the development of legal and regulatory institutions that support private sector development. The third measure highlighted the promotion of industrial and Small, Medium and Micro Enterprise (SMME) development. Lastly, it emerged that Lesotho needed to address further development of core productive areas, including tourism, agriculture, infrastructure and human skills (Kingdom of Lesotho, 2009).

In recognition of the need to transform the economy towards employment-creating growth, Lesotho adopted its Growth Strategy in 2012. This Growth Strategy was one of the key strategies that were incorporated in the National Strategic Development Plan. Consequently, new strategic actions were then developed in Lesotho's Growth strategy, which aimed at facilitating stability in the macroeconomic and political environment, savings and investment promotion, economic diversification, and skills development (Kingdom of Lesotho, 2012).

During the past decade, Lesotho's Vision 2020 was formulated with the aim of providing a long-term plan for achievement of sustainable economic growth and development (Central Bank of Lesotho 2004). Vision 2020 consists of seven broad components that highlight the key focus areas. These components include: a stable democracy, a united nation, a peaceful nation, a healthy and well-developed resources base, a strong economy and prosperous nation, a well-managed environment, as well as a well-advanced technology (see Kingdom of Lesotho, 2000). An appropriate implementation of these key components of Vision 2020 is perceived to assist in generating employment-creating growth in Lesotho.

2.2 Trends in Economic Growth in Lesotho

The performance of Lesotho's economy reveals a number of issues. One of the issues concerning Lesotho's economic performance is its heavy dependence on South Africa. Given the dependency on remittance flows from South Africa, the growth rate of Lesotho's Gross National Income (GNI) has substantially varied from those of the Gross Domestic Product (GDP) growth and the GDP per capita growth. In particular, due to strong remittance flows resulting from Lesotho miners working in South Africa, the rate of growth in GNI in Lesotho has been significantly higher than the rate of growth in GDP (World Bank, 2007). Trends in Lesotho's economic growth reveal that during the 1970s and the early 1980s in particular, Lesotho's GNI growth by far exceeded both the GDP growth and the per capita growth (see Figure 1).

As revealed in Figure 1, during the 1970s, the highest GNI growth rate was recorded in 1974 whereby GNI grew by 32.63 percent. On the contrary, in 1974, GDP grew by 10.98 percent while GDP per capita grew by 8.56 percent. The growth in Lesotho's GDP during the 1970s was mostly driven by the agriculture sector, which was the largest contributing sector at that time (Barclays Bank, 1978). Towards the end of the 1970s, Lesotho's economic growth fell significantly. By 1979, GDP growth had decreased from 18.32 percent to 2.89 percent (World Bank, 2014).

Even though Lesotho's economic growth had fallen substantially towards the end of the 1970s, a significant recovery in economic growth occurred during the beginning of the 1980s. In 1982, Lesotho's GDP growth had improved from 0.69 percent to 2.56 percent, while the GNI growth rate had risen from 4.79 percent 22.09 percent (World Bank, 2014). Most of the economic growth in Lesotho during the period between 1980 and 1987 was driven by remittances from the Republic of South Africa (World Bank, 2007).

Moreover, following the implementation of the Lesotho Highlands Water Project around the late 1980s, the performance of Lesotho's economic growth improved further. This improvement in economic growth continued into the first half of the 1990s. At that time, the impetus from the Lesotho Highlands Water Project improved Lesotho's revenue (Ministry of Development Panning, 2000). Following the inception of the Lesotho Highland Project, between 1988 and 1994, Lesotho's GDP grew between 3.33 percent and 8.56 percent, while GDP per capita grew between 1.31 percent and 6.85 percent. Over the same period, the GNI had fallen considerably, with negative growth rates being recorded in 1991 and 1993. The declining share of miner remittances contributed to the decrease in Lesotho's GNI during the 1990s (World Bank, 2007).

Over the past decade, Lesotho's economic growth has been exhibiting a more stable trend in comparison to its performance in the previous periods. This improvement in Lesotho's economic growth was marked by some evident progresses in the performance of the GDP growth and the GDP per capita growth. The GNI growth has, however, been declining, particularly between 2002 and 2011. The improvement in Lesotho's GDP growth during the past decade corresponded to the increased share of exports from the manufacturing sector.

The increased share of manufacturing exports during the past decade followed the introduction of the Africa Growth and Opportunity Act, which led to a substantial increase in Lesotho's exports (Southern African Development Community, 2002). Generally, in recent years, the growth in Lesotho's GDP has been driven by different factors. These include the increased contribution of construction, transport and communications as well as the recovery of the textile clothing sub-sector sector (African Economic Outlook, 2014). Figure 1 illustrates the trends in economic performance in Lesotho during the period 1970 to 2013.

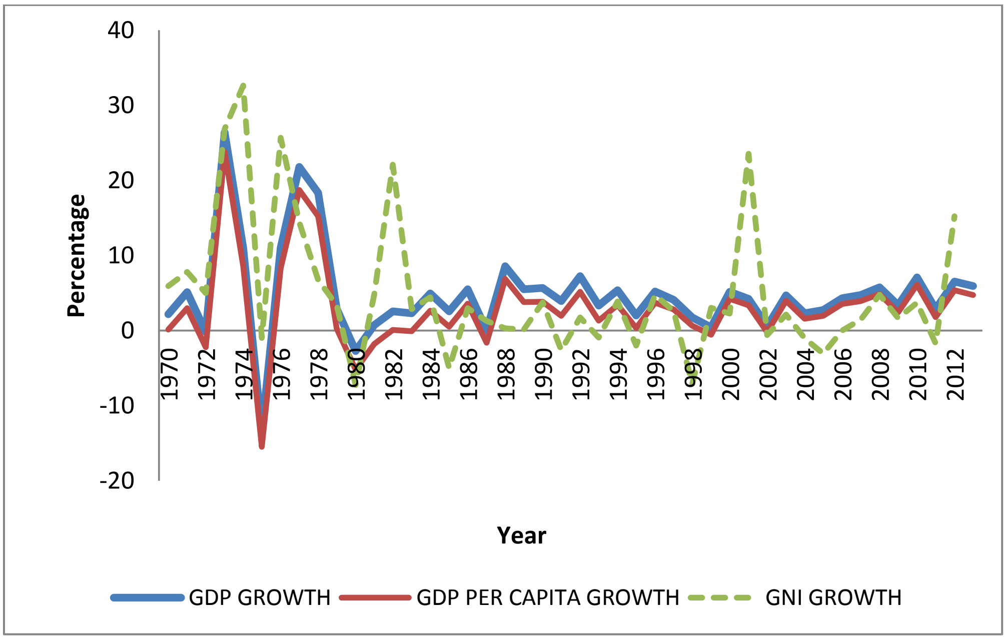

Figure 1. Trends in economic growth in Lesotho

Source: World Bank, World Development Indicators (2014)

3. Trade Policy and External Competitiveness in Lesotho

Lesotho belongs to the Common Monetary Area of Southern Africa, in which its currency has been pegged to the South African currency, the rand. As a result, movements in the rand-exchange rate have a direct and significant impact on Lesotho's external competitiveness (Wang et al., 2007). Considering Lesotho's trade policy, because of its membership to the Southern African Customs Union (SACU), Lesotho's tariff rates are to a large extent influenced by the SACU Agreement. Therefore, as a result of the SACU Agreement, Lesotho does not apply any customs or import duties to products originating from other SACU member states, namely, Botswana, Namibia, Swaziland and South Africa. However, goods imported from countries outside the Union are subject to import duties in accordance with SACU's common external tariff (Southern African Customs Union, 2014).

There are different policy instruments that are applied in Lesotho's trade policy. These include quotas, tariffs and taxes. Generally, the tariff rates in Lesotho range between zero percent and 45 percent (International Trade Administration, 2011). Apart from tariffs, most imports entering Lesotho are also subject to the Value Added Tax (VAT), which is set at 14 percent (Lesotho Revenue Authority, 2004). However, while this VAT is imposed on every taxable supply and every taxable import, there are certain exemptions that are granted to items such as specified supplies and imports, education services and financial services (Kingdom of Lesotho, 2001).

Although tariffs are the most commonly used instrument of trade policy in Lesotho, other instruments of Lesotho's trade policy have brought about radical changes in the country, thereby enhancing performance in certain sectors of the economy. For instance, the Multifibre Arrangement, together with duty-free access to the United States granted under the African Growth and Opportunity Act, have acted as major policy instruments in influencing further developments in Lesotho's textiles and clothing sub-sectors (United Nations Conference on Trade and Development, 2012). In addition to the changes brought by the trade policy instruments, the reform process in the Lesotho's trade policy also brought a regime shift in the country's trade policy orientation.

During the 1990s, Lesotho's trade policy went through a reform, which was also informed by the implementation of various strategic actions in the country. Within some of Lesotho's strategic plans, particularly development plans, a strong emphasis on adjusting the country's trade orientation trade was made. Hence, with the implementation of Lesotho's Fifth Development Plan, which operated from 1990/91 until 1993/94, Lesotho's trade policy turned towards greater export orientation and promotion of foreign direct investment (World Trade Organisation, 1998a).

One of the outcomes of reforms in Lesotho's trade policy was the liberalisation of the agricultural sector that commenced in 1996. As part of the liberalisation process in the agricultural sector, price-fixing and quantitative restrictions were removed (World Trade Organisation, 1998b). This liberalisation in Lesotho's agricultural sector resulted in a gradual shift away from a highly regulated inward-looking strategy, towards a liberalised outward-looking strategy (World Trade Organisation, 2009). Afterwards, later developments in the agricultural sector comprised the abolition of import controls (Southern African Development Community, 2002).

Despite the developments in Lesotho's trade policy, between 1990 and 2003, Lesotho was still regarded as having the highest level of tariffs in the world, which were more than twice the world average at that time (Rodriguez 2007, p. 12). This rendered Lesotho's trade policy to be regarded as restrictive; although, on the basis of the trade ratio criterion, Lesotho could be regarded as an open economy (see African Economic Outlook, 2015).

Considering Lesotho's current position, there have been marked developments in the country's trade policy in other non-agricultural sectors. These developments are related to developments in trade policy that have been largely facilitated by the adoption of export and growth strategies. In the manufacturing sector, the adoption of export and growth strategies has led to the diversification of export products and markets, the removal of trade distortions, as well as the promotion of international competitiveness (World Trade Organisation, 1998a). As results of various developments in Lesotho's trade policy, Lesotho's tariff rates are somehow compatible to the ones that are applied in other SACU countries. In 2015, the simple applied average Most Favoured Nation (MFN) tariff rate for Lesotho's was 7.6 per cent, which was close to the MFN rates that are applied in other SACU countries (see World Trade Organisation, International Trade Centre & United Nations Conference on Trade and Development, 2015).

4. Trade Regimes in Lesotho

Following its independence in 1966, Lesotho adopted import substitution strategy as a strategy for industrial development (see Table 1). Within this import substitution regime, protective measures were enforced, which included import controls, quantitative restrictions, and price-fixing. Later in 1967, the Lesotho National Development Corporation (LNDC) was established. The LNDC brought a different dimension to Lesotho's initial import substitution industrial strategy. Unlike the import substitution strategy, the LNDC focused on export-led growth its key strategy. Later in 1978, the Trade Promotion Unit was established in order to assist the exporters (World Trade Organisation, 2009).

During the 1980s, no major developments concerning trade-related interventions occurred in Lesotho, until the implementation of the Structural Adjustment Programmes in 1988. In the same year, the Lesotho National Development Corporation introduced the Export Finance Scheme as a facility to assist the local exporters with export finance. However, in general, the trade-related interventions that Lesotho adopted before the 1990s did not address the issue of trade integration adequately. It was with the adoption of the Sixth National Plan in 1996 that trade integration became more pronounced.

As a step towards trade integration, during the 1990s and most of the 2000s, Lesotho signed a number of trade agreements with countries in sub-Saharan Africa, Europe, and North America. Among other things, these trade agreements aimed at fostering enhanced market access. In sub-Saharan Africa, Lesotho became part of the 2002 SACU Agreement concluded with Botswana, Namibia, Swaziland and South Africa. Lesotho also became a signatory to the Southern African Development Community Free Trade Protocol, which was implemented in 2000.

There have also been other developments concerning the trade agreements concluded between Lesotho and other major economies outside sub-Saharan Africa. These developments include the African Growth and Opportunity Act, which grants market access to the United States, and the Free Trade Agreement concluded with the European Community. Apart from fostering trade partnerships, Lesotho has, since the mid-1990s, undertaken measures aimed at opening up the economy to trade. This initiative to open up the economy has been evidenced by the liberalisation of the major sectors, the diversification of export markets, and the creation of enabling environment for private sector participation. Table 1 presents Lesotho’s trade regimes from 1966 until 2009.

Table 1. Sequencing of trade regimes in Lesotho, 1966 – 2009

Year	Intervention	Measures introduced
1966	Adoption of import substitution strategy	Import controls, price-fixing in agriculture sector, quantitative restrictions
1967	Establishment of the Lesotho National Development Corporation	Initiation, promotion and facilitation of development of manufacturing and processing, mining and commerce; adoption of export-led growth as key strategy.
1969	Inception of the 1969 SACU Agreement	Application of customs and excise duties, and other related measures and laws set by South Africa.
1978	Establishment of the Trade Promotion Unit	Promotion, coordination and development of exports; provision of technical assistance and advice to exporters.

1988	Introduction of the Export Finance Scheme	Assistance to exporters with access to credit.
1988	Implementation of Structural Adjustment Programmes, supported by the International Monetary Fund.	Shaping of the practices affecting exports and import flows.
1996	Adoption of the Six National Development Plan	Emphasis on deepening of regional economic integration; emphasis on expansion of markets and better access to capital markets in the region.
1996	Liberalisation of the Agriculture sector	Liberalisation of price of whole maize and wheat; removal of quantitative restrictions on importation of maize and wheat.
1997	Undertaking of the “Red Tape Analysis”	Review of the major administrative barriers to investment; review of Companies Act of 1967; reduction in the import and export licensing system.
2000	Formulation of Vision 2020	Collaboration with other countries in trade, investment, and economic advancement; strengthening of Lesotho’s investment and trade promotion capacity; diversification of export markets.
2000	Implementation of Economic Reform Programme: Interim Poverty Reduction Strategy Paper (IPRSP)	Adoption of export-led growth strategy; adoption of export promotion as key element of trade policy.
2000	Signing of the Africa Growth and Opportunity Act (AGOA)	Duty-free access granted to Lesotho’s exports of clothing to the United States market.
2000	Implementation of SADC Free Trade Protocol	Elimination of barriers to intra-SADC trade; elimination of import duties; elimination of non-tariff barriers; phasing out of existing quantitative restrictions on imports.
2001	New Export Finance and Insurance Scheme	Assistance with export finance; provision of loan guarantee fund
2002	Implementation of the 2002 SACU Agreement	Introduction of new system of managing and sharing of the common revenue pool; general liberalisation of markets; conversion of non-tariff barriers; phased reduction of import tariffs.
1995	Commencement of Privatisation and economic restructuring	Phasing out of government subsidies and state control of commercial enterprises; creation of enabling environment for increased private sector participation.

2004	Signing of SACU-MERCOSUR preferential trade agreement	Provision of tariff preferences for selected goods; diversification of market opportunities.
2008	Implementation of SACU-EFTA	Provision of trade preferences; promotion of trade between EFTA and SACU member states.
2008	Signing of the SACU Trade, Investment and Development Cooperation Agreement (TIDCA) with the USA.	Expansion and diversification of trade between SACU and the United States; promotion of attractive investment climate.
2009	Signing of the Economic Partnership Agreement with the European Community	Enhanced access for Lesotho's exports into major markets.

Sources: World Trade Organisation (1998b), (2003) and (2009); International Monetary Fund (2006); Kingdom of Lesotho Vision 2020; Southern African Customs Union (2003a) and (2011); Southern African Development Community (1996).

5. Trade Sector Performance and Economic Growth in Lesotho

The performance of Lesotho's trade sector reflects a number of developments that took place over the years. Initially, the share of exports in GDP remained considerably lower than the share of imports in GDP (see Figure 2). This disparity between Lesotho's exports and imports in GDP is determined by different factors. In particular, during the 1960s, Lesotho's economy largely relied on livestock farming and crop cultivation, but the lack of capital equipment, credit and marketing facilities became one of the constraints to the advancement of the agricultural sector in the country (Africa Institute, 1966). Throughout the 1960s and most of the 1970s, the share of Lesotho's exports in GDP remained below 20 percent. In contrast, the share of imports in GDP remained well above 40 percent during the same period.

During the period commencing from 1980 until the mid-1990s, no significant growth occurred in the share of exports in GDP. It was only around 1995 that the share of exports in GDP doubled to 22.45 percent from its initial value of 11.74 percent that was recorded in 1960. By the year 2000, further improvements in the share of exports in GDP were observed. These improvements were evidenced by the highest rate in the share of exports in GDP of 66.17 percent in 2002.

The introduction of the Africa Growth and Opportunities Act (AGOA) is one of the factors that led to the improved performance of exports in Lesotho during the past decade (Mokhele and Vögel, 2015). This made garment exports under the AGOA to become the main engine of growth in Lesotho, accounting for about 70 per cent of total exports between 2002 and 2004 (Wang et al., 2007). The significance of AGOA in Lesotho's economy is supported by new opportunities that have been created since the inception of the Act. Evidence shows that since 2001, AGOA provided further opportunities for expansion in Lesotho, particularly in the manufacturing sector (World Bank, 2007).

Despite these improvements in the share of Lesotho's exports in GDP, there has been a significant decline in the share of exports in GDP in recent years. By 2012, the share of exports in GDP had fallen by 17.26 percent from 66.12 percent in 2002 to 48.91 percent (World Bank, 2014). Part of the decline in the share of Lesotho's exports in GDP is attributed to the reduction in manufacturing-related activities, particularly between 2000 and 2004 (Central Bank of Lesotho, 2010a).

The decline in Lesotho's manufactured exports resulted from a number of factors including the real exchange rate appreciation. Because of the real exchange rate appreciation of the South African rand, Lesotho's exports of manufactured clothing have suffered seriously in the past decade. The appreciation of the rand appreciated, which directly affected competitiveness in Lesotho's export sector, made it difficult for existing firms to remain competitive in the garment industry (Morris & Sedowski, 2006). Apart from exchange rate appreciation, another factor that led to a decline in Lesotho's exports is the growing competitiveness of China in the United States, which led to a 15 per cent fall in Lesotho's exports between 2002 and 2006 (Kaplinsky and Messer, 2008).

Considering the performance of imports in Lesotho, Figure 2 reveals that the share of imports increased significantly during the early 1970s. Between 1970 and 1979, the highest share of imports in GDP was recorded, during which imports accounted for 138.63 percent in GDP in 1976. Around 1976, Lesotho's imports mainly consisted of manufactured goods, reflecting a strong orientation of Lesotho's economy towards imported manufactured goods (Barclays Bank, 1978).

During the 1980s, a robust growth in the share of imports in GDP was experienced, which by far surpassed the share of exports in GDP over the same period. However, the performance of imports in GDP fluctuated during the 1990s, followed by a steep decline after 1998. Between 1998 and 1999, the share of imports in GDP fell from 150.46 percent to 138.47 percent. This was the period during which Lesotho went through civil unrest. Subsequently, the performance of imports improved, though another significant reduction in the share of imports in GDP occurred in 2012. Compared to the 2002 performance, the share of imports in 2012 was 30.15 percent lower than in 2002. Figure 2 illustrates the shares of exports and imports in GDP in Lesotho from 1960 until 2012.

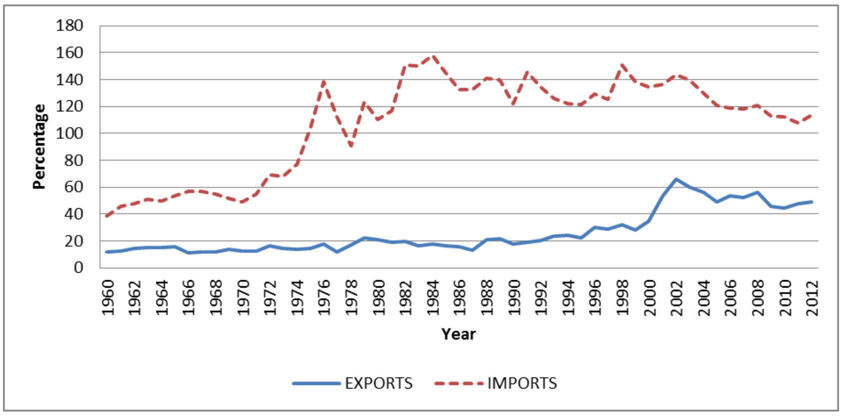

Figure 2. Lesotho's exports and imports as percentage of GDP, 1960 – 2012

Source: World Bank, World Development Indicators (2014)

6. Conclusion

The aim of this paper was to investigate the role of international trade in Lesotho. The exploratory review provided in this paper shows that international trade has been of critical importance to the economy of Lesotho. Over the years, the increasing role of international trade in Lesotho's economy has been reflected in the country's key growth sectors. In particular, exports of clothing and textiles have become the main engine of growth. The contribution of manufactured exports to Lesotho's growth has been driven largely by preferential concessions granted under the Africa Growth and Opportunity Act. This paper has also found that Lesotho's economic success has been closely linked to the country's implementation of strategic frameworks, as well as reforms in its trade policy. By tracking down Lesotho's different growth policies and other trade-related interventions, a number of conclusions have been drawn. Based on the findings of this study, it may be concluded that the adoption of Lesotho's first industrial strategy during the late 1960s brought about different implications to the stance of its country's international trade. At that time, import substitution was adopted as the key strategy for industrial development. As a result, protective measures that were meant to control imports were put in place. These measures included quantitative restrictions and tariffs. The study has also found that the share of Lesotho's exports in GDP and that of imports to GDP have been falling in recent years. This has been largely attributed to the expiry of the MultiFibre Agreement. The study reiterates that the termination of Lesotho's trade privileges poses a major challenge to its economic growth; since manufactured exports have become Lesotho's main source of exports and a vital engine of their economic growth.

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