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Global market opportunities for SMEs: Export/import perception and trade growth in Lesotho

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Background: Given the economic situation of Lesotho, where small and medium-sized enterprises (SMEs) are key drivers of employment and growth, it is critical to understand the factors impacting their foreign trade operations.

Aim: This study examines the ease of export/import procedures on trade performance and SME participation in Lesotho.

Setting: The research is based on data collected from 153 firms, 82% of which are SMEs, through a survey conducted by the National University of Lesotho – World Trade Organisation (NUL-WTO) research chair.

Methods: Using structural equation modelling (SEM), the study quantifies the direct and indirect effects of perceptions of export/import ease on SME trade participation and overall trade performance.

Results: The research reveals that favourable perceptions of export/import ease significantly impact SMEs' willingness to engage in cross-border trade. Key findings indicate that export constraints such as competitiveness, standard compliance and informal restrictions lower SME trade participation. In contrast, import constraints such as legal requirements, access to trade finance and foreign market information increase participation, highlighting the importance of niche markets and domestic competitiveness. Furthermore, the ease of doing trade positively impacts trade performance, as represented by sales.

Conclusion: Policymakers can use these findings to improve trade facilitation policies tailored to SME needs, creating a more favourable trading environment.

Contribution: Methodologically, the study demonstrates how SEM can analyse complex linkages in trade dynamics, providing insights into policy initiatives to enhance Lesotho's participation in global and regional value chains and the resilience of SMEs in international markets.

Keywords: Lesotho SMEs; trade performance; ease of export/import; trade transaction cost; internationalisation; trade facilitations.

Introduction

International trade is widely acknowledged as a key driver of economic growth, as it allows for the efficient allocation of resources across borders (Mokhethi 2019; Prasetyo 2019; Rani & Kaur 2018:3–10; Rocha 2018; World Trade Organization [WTO], 2023; Xu et al. 2020). Despite its benefits, the impact of international trade on smaller economies with limited resources remains debated. Micro, small and medium enterprises (MSMEs) play a crucial role in many countries' external sectors. The World Bank (2020) Ease of Doing Business (EODB) report highlights the importance of a robust private sector for a thriving economy, emphasising the role of small and medium enterprises (SMEs) in job creation and income generation. Chowdhury, Azam and Islam (2013:109–112) underscore the significance of SMEs in driving economic growth in both developed and developing countries.

In the context of Lesotho, SMEs are in general described based on criteria such as the number of employees, annual turnover and total assets. The Ministry of Small Business Development (2016) in Lesotho defines SMEs as enterprises employing between 4 people and 50 people, with annual turnover of less than M5 million (about $270 000.00) contributing significantly to the gross domestic product (GDP). Similarly, large enterprises are defined as businesses that exceed the thresholds for medium enterprises (Ministry of Small Business Development 2016).

Note: Additional supporting information may be found in the online version of this article as Online Appendix 1.

Small and medium enterprises are widely recognised as crucial for economic development, employment creation and poverty reduction. Their role in stimulating economic activity, promoting entrepreneurship and fostering economic diversification is well-documented (Abisuga-Oyekunle, Patra & Muchie 2022; Mokhethi 2019:2–5). The Organisation for Economic Co-operation and Development (OECD) states that small enterprises make up to 95% of all firms in many economies (Kwong & Kurosaki 2023; Koreen & Cusmano 2019). This is especially true for most sub–Saharan Africa countries where SMEs account for approximately 90% of businesses in the region (Igwe, Onjewu & Nwibo 2018). They play pivotal role in the economy of the region by providing about 60% of employment and contributing about 40% of GDP in most countries (International Finance Corporation [IFC] 2018). In South Africa, small enterprises vastly outnumber large ones, employing a significant portion of the labour force and meeting the demand for domestic products demand (Ramukumba 2014). Research shows that exporting provides substantial benefits for small enterprises (Atkin & Jinhage 2017), with SMEs often selecting export as their mode of entry into international markets.

To fully benefit from trade, ease-of-trade elements must interact effectively as they are essential to regional integration and trade facilitation (Balistreri, Tarr & Yonezawa 2014; Nare 2020). Small and medium enterprises face significant obstacles when expanding internationally, originating from trade rules and the broader business environment and can be internal or external to the company (Fornes, Cardoza & Altamira 2022). Factors such as exchange rates, market access, competition and trade costs (including tariffs and non-tariff barriers) significantly impact the volume, pattern and efficiency of trade (Bloch & Tang 2004). The World Bank's EODB initiative aims to stimulate reforms and create a business-friendly environment, with its Trading Across Borders component focusing on reducing bureaucratic delays in export and import documentation (Doshi, Kelley & Simmons 2019).

Lesotho's economy is highly exposed to global trade in goods and services. From 2014 onwards, the percentage of imports and exports to GDP has been high, reaching above 140% in 2017 and 2018 (UN Comtrade 2020). The development of the mining sector and the increased demand for agricultural products after poor harvests in 2015 and 2016 worsened the merchandise trade imbalance between 2014 and 2017 (African Development Bank Group 2018). Decreased output and lower international prices contributed to a significant reduction in diamond exports (Privacy Shield 2024). However, improvement resumed in 2018, with a steady decrease in the merchandise trade deficit, particularly notable in 2020 because of the coronavirus disease 2019 (COVID-19) crisis, driven by buoyant diamond exports and favourable international market conditions (UN Comtrade 2020).

Lesotho's export performance has been relatively stable, with minor variations influenced by the competitiveness of its textile industry and the state of the diamond market (World Bank 2020).

The textile industry, supported by trade agreements under the *African Growth and Opportunity Act* (*AGOA*), plays a major role in the country's exports (Jacob, Elgahm & Halidu 2020). Small and medium enterprises in Lesotho have increasingly participated in cross-border trade, reflecting global trends. The textile sector in Lesotho is dominated by SMEs, benefiting from favourable trade agreements, low labour costs and a strategic geographic location, contributing significantly to the country's export revenues (Seturumane 2023).

As a member of the Southern African Customs Union (SACU) Free Trade Area, Lesotho has access to markets in the EU, United States (US), Latin America, Canada, Japan and the Nordic region. However, extensive paperwork and bureaucratic procedures can hinder trade. Lesotho's main exports include diamonds (35.2%), knit women's suits (8.5%), non-knit men's suits (8.4%), water (5.3%) and knit t-shirts (5.3%), while its top imports are refined petroleum (12%), raw cotton (4.5%), light rubberised knit fabric (5.4%), electricity (2.8%) and synthetic filament yarn woven fabric (2%) (OEC 2022). Non-tariff barriers, both technical and non-technical, significantly affect the EODB and cross-border trade. The World Bank's 2014 Doing Business Report ranked Lesotho 147 out of 189 countries in the Trading Across Borders category, highlighting the need for seven documents and an average of 33 days to import and 31 days to export goods (Mokhethi 2019; Privacy Shield 2024). Despite tariff reductions since 2000, intra-regional trade has not increased as expected because of significant non-tariff measures (NTMs) in the Southern African Development Community (SADC) (Kalaba & Kirsten 2012; United Nations 2016).

By 2020, Lesotho's ranking improved to 40 out of 190 countries in the World Bank's Doing Business Report, with reduced documentation requirements and processing times for imports and exports. However, certain import limitations persist, including protective tariffs, port congestion in South Africa, customs valuation issues, import licences and ineffective bureaucracy. Transport challenges arise from Lesotho's lack of direct sea access and limited international airport facilities, although quality facilities are available in Durban, South Africa. The business community also cites inadequate physical infrastructure, such as poor road conditions and unreliable electricity. Lesotho has no specific investment law, but the *Companies Act of 2011*, the *Financial Act of 2012* and the 2015 National Investment Policy guide on foreign investment (International Trade Administration 2024).

Lesotho's trade flows reveal clear disparities in the shares of imports and exports in the GDP, with imports consistently exceeding exports. For instance, between 1960 and 1970, imports constituted more than 40% of GDP, while exports accounted for barely 20% (World Bank 2023). Although the percentage of exports to GDP has increased recently, imports remain significant. Lesotho's reliance on South Africa for 80% of its imports makes it vulnerable to external shocks.

Export diversification is hindered by consistent contractions in foreign direct investment (FDI) inflows, particularly in the mining and textile sectors. Lesotho's current account typically runs a deficit, which was particularly high in 2016 (8.1% of GDP), driven by a widening trade deficit because of high imports and weak export growth. This was compounded by a decline in net current transfers from reduced SACU receipts. The current account deficit eased to its lowest level in 2020 because of a surge in the secondary income account surplus buoyed by increases in SACU receipts. However, the current account balance worsened in 2021 and 2022, primarily because of an expanding services account deficit and a declining income balance surplus.

This study employs an exploratory review and empirical analysis, focusing on Lesotho's ease of trading across borders, SMEs' involvement and trade performance. The findings demonstrate the link between Lesotho's trade performance and SMEs' involvement in global and regional value chains. The study also emphasises the importance of pursuing growth driven by the private sector and exports in Lesotho's growth strategy. Unlike previous studies that focused only on export constraints or apparel manufacturers (Mokhethi & Vögel 2015; Seidman 2009), this research examines both import and export limitations and their influence on trade performance and SME participation. It highlights the factors affecting Lesotho's trade flows and the challenges to the country's trade growth.

The article is organised into six sections, including the introduction. Section 'Literature and theoretical review' reviews relevant literature and theories. Section Stylised facts on internation trade growth and small and medium-sized enterprise SME participation in Lesotho describes the data and methodology. Section four discusses the outcome of the structural equation model. Sections five presents conclusions, policy recommendations and study limitations.

Literature and theoretical review

Lesotho trade strategy and ease of doing trade

Since the early 2000s, Lesotho has implemented several strategic frameworks to achieve medium-term and long-term development goals (Government of Lesotho 2018). One of the notable frameworks is Lesotho's Vision 2020, established in 2000 to promote sustainable development and growth. Vision 2020 emphasises enhancing investment and trade capacity and diversifying export markets (Malefane & Odhiambo 2016). In the realm of trade, Lesotho's Poverty Reduction Strategy focuses on eliminating barriers to trade and industry, highlighting the importance of various trade agreements for economic development. Key agreements identified in this strategy include the *AGOA*, the Multi-fibre Agreement, the European Union-Republic of South Africa Free Trade Agreement and the Southern African Development Community (SADC) Free Trade Agreement. The strategy underscores the fact that successful poverty reduction requires policies fostering an environment conducive to international trade (Nurudeen & Adekola 2023).

Lesotho's trade policies are significantly influenced by the SACU Agreement of 2002, which governs the country's tariff regulations. Lesotho implements the SACU Common External Tariff (CET) and other associated import policies. Importers face additional charges, such as clearing fees ranging from M1300.00 to M1750.00 ($69.44 to $93.48). For non-SACU imports, a permit system is enforced, with manufacturers receiving preferential treatment through a 'blanket import permit' valid for 12 months with an additional 3-month grace period. Consequent to the initial submission of the Import Licensing Questionnaire in 2010 to the WTO, Lesotho till the time of conducting this study is yet to conduct any known periodic reviews with updated information to maintain transparency in their trade practices (WTO 2024).

The National Strategic Development Plan (NSDP) 2012/2013 to 2016/2017 marked another significant trade strategy for Lesotho. Seboholi (2022) in his study emphasised the need for an export-oriented strategy to complement the small domestic market. He further stressed that SMEs because of their smaller share as individuals have the greater incentive of entering the market compared with much larger firm. The International Monetary Fund (IMF) found that implementing this strategy would require addressing several sectoral changes, including removing supply-side constraints in key growth sectors (Allum, Chopra & Pinon-Farah 2021). A notable success in Lesotho's trade landscape is the impact of AGOA, which significantly boosted export performance, particularly in the garment industry, accounting for about 70% of total exports between 2002 and 2004 (Malefane & Odhiambo 2016).

Despite opportunities in international trade, especially for micro, small and medium-sized enterprises (MSMEs), these businesses often face substantial barriers to expanding to foreign markets. Limited resources and capabilities make it challenging for smaller enterprises to internationalise compared to larger ones, hindering their export potential (Atkin & Jinhage 2017; Wijayarathne & Perera 2018). There are no internal tariff barriers among SACU members, and all members, except Botswana, are part of a common monetary area with currencies pegged to the South African rand. Imports from non-SACU countries are subject to a CET.

The World Bank's EODB report assesses a country's international trade practices based on criteria such as the number of documents required for exports and imports, the time taken to complete these processes and the associated costs (World Bank Group [WBG] 2019). According to the World Bank (2020) Doing Business Report, Lesotho ranks 40th out of 190 countries in the 'Trading Across Borders' category. The report highlights the fact that exporting or importing a product in Lesotho requires four documents, with an average time of 14 h for imports and 12 h for exports.

Lesotho imposes certain import restrictions based on security, health, economic and moral considerations. These restrictions are regulated by several legislative acts, including the *Customs and Excise Amendment Act of 2021*, the *Import and Export Control Act of 1984*, the *Import Restrictions Regulations of*

1988 and the *Agricultural Marketing Regulations of 1967.* Prohibited imports include weapons, recreational drugs, used clothing and shoes. Quantity control restrictions apply to specific agricultural products such as bread, legumes, sugar, eggs, meat, dairy products, fruits and vegetables. However, provisions allow for small consumer purchases of eggs, sugar and legumes made outside the country.

Evaluation of Lesotho's external competitiveness in Lesotho

Lesotho's external competitiveness has been notably suboptimal in recent years. The Second National Strategic Development Plan (NSDP II) (2019–2023) identifies an 'uncompetitive business environment' as a significant constraint on private investment. Lesotho's position in the Global Competitiveness Index declined from 123rd to 131st out of 141 countries between 2014 and 2019 (World Bank 2022).

A critical factor impacting Lesotho's external competitiveness is its reliance on preferential market access agreements. Lesotho benefits from the Generalised Systems of Preferences (GSP) granted by countries including Australia, Canada, the Eurasian Economic Union, the European Union, Iceland, Japan, New Zealand, Norway, Turkey, the UK and the US. As a Least Developed Country (LDC), Lesotho also enjoys preferential or duty-free access to markets in Chile, China, Korea, India, Montenegro, Morocco, Tajikistan and Thailand. Crucially, Lesotho qualifies for duty-free and quota-free access to the US market under the *AGOA* (IMF, African Dept 2022).

Over the past two decades, Lesotho has strategically leveraged these preferential market access agreements, particularly AGOA, the Cotonou Agreement and GSP, to attract FDI in labour-intensive manufacturing sectors, enhancing its competitiveness. Initially, this strategy targeted exports to the US and the EU. However, following the expiration of the Multi-Fibre Arrangement (MFA) in 2005 and the implementation of the WTO's Agreement on Textiles and Clothing (ATC), investments shifted towards producing apparel, footwear and other labour-intensive products for the South African market. Lesotho faced heightened competition from major textile producers, especially China and India, who could now export unlimited textiles and garments to the US and EU markets.

Lesotho's membership in the SACU has been a strategic asset. The 2002 SACU Agreement facilitates the free movement of domestic products within the customs area and implements a CET on imports from non-member countries. While Lesotho cedes autonomy over its external tariff policy as a SACU member, it participates in joint determinations and negotiations. Furthermore, Lesotho engages in regional trade agreements such as the SADC Free Trade Area, the Tripartite Free Trade Area (TFTA) and the African Continental Free Trade Area (AfCFTA). Lesotho's trade strategy includes advocating for reductions in the CET to attract investment for exports. However, South Africa's emphasis on protecting domestic jobs limits opportunities for significant CET reforms in the short term. To enhance competitiveness, Lesotho aims to optimise regional and international value chains by using SACU's Rebate and Duty Drawback facilities to support small and emerging businesses.

As a LDC within the WTO framework, Lesotho benefits from Special and Preferential Treatment. It takes part in various groups to secure improved market access and advocate for the removal of non-tariff barriers. With duty-free and quota-free access to the US under AGOA guaranteed only until 2025, Lesotho must prepare for increased competition post-AGOA. This preferential access has spurred investment in Lesotho's textile industry, resulting in the establishment of numerous factories and significant employment creation (United Nation Conference on Trade and Development [UNCTAD] 2003). Improving service sector efficiency is crucial for enhancing Lesotho's competitiveness. Following the National Services Policy Review (NSPR), the government endorses a national services development strategy to maintain and enhance service sector performance. Lesotho ratified the Trade Facilitation Agreement in 2016, emphasising the need for improved border agency co-operation and streamlined trade processes.

The draft of National Quality Policy (NQP) of Lesotho seeks to establish a robust framework that includes standards, metrology, certification and accreditation. This policy initiative proposes the establishment of the Lesotho Standards Institution and the formulation of legal frameworks to enforce these standards. A significant focus of the NQP is the strengthening of Intellectual Property Rights (IPR) to drive innovation and economic growth. To this end, the government intends to revise IPR laws, set up specialised IPR courts, provide legal training and digitise the trademark and patent registration processes (Mu 2022). Moreover, Lesotho is in the advanced stages of finalising the National Competition Bill and the Consumer Protection Bill, which are aimed at curbing anticompetitive practices and regulating mergers and acquisitions. According to the Government of Lesotho (2022 cited in Mu 2022), the implementation of these laws will be supervised by a unified agency to ensure seamless collaboration with other SACU member states.

Stylised facts on international trade growth and small and medium-sized enterprise participation in Lesotho

Generally speaking, a variety of variables have contributed to Lesotho's GDP development in recent years. Among these are the growing shares of the building, transportation and communications sectors as well as the revival of the textile apparel subsector (African Economic Outlook 2014). Regarding imports, the majority of agricultural products and 85% of all other commodities imports are from South Africa. China and Taiwan supply intermediate goods, especially textiles (International Monetary Fund, African Dept 2022). Regarding exports, Lesotho's exports are mostly focused on a

small number of items and markets. Diamonds and textiles make up over 80% of exports, and three nations receive almost 85% of all exports: Belgium, South Africa and the United States. Over the past 10 years, the primary export destinations have been mostly the same, with about 30% of goods going to Belgium, South Africa and the US apiece. Exports to the US and Belgium are concentrated in two major product categories: textiles (which account for 85% of total exports to the US) and diamonds (which account for 100% of total exports to Belgium). In contrast, exports to South Africa are diverse (Department of Africa, International Monetary Fund 2022).

The predominantly foreign-owned textile sector in Lesotho experienced significant growth during the 1990s and early 2000s. This growth was largely driven by the availability of cheap labour and the enactment of the US *AGOA* in 2000. *Africa Growth and Opportunity Act* attracted Taiwanese and Chinese investors to establish apparel factories in Lesotho by offering favourable rules of origin, along with duty-free and quota-free access to the US market. As a result, Lesotho became highly successful in exporting apparel to the US (International Monetary Fund 2022).

Regarding exports from Lesotho, data show an overall increase from 1975 to 2008, except for years 2003, 2005 and 2007. Exports grew by 10.4% between 1975 and 1984, and by 19.4% between 1985 and 1994. Following the signing of *AGOA* in 2000, exports surged by 122.3% (Lesotho Bureau of Statistics 2010). However, Kanono (2000) points out that many small enterprises in Lesotho do not produce for export. Those that do, primarily target South Africa, with a few securing markets in speciality shops in Botswana. Most small manufacturing enterprises are involved in the garment industry, traditional wear and handicrafts, leading to a limited range of export products.

Narayanan, Ciuriak and Singh (2015) observe that numerous barriers hinder MSMEs from entering foreign markets, but the specific nature of these obstacles in Lesotho remains unclear. This limited trade diversification makes Lesotho highly vulnerable to economic shocks. For instance, the financial crisis and reduced demand in the US significantly impacted employment in Lesotho, with an estimated job loss of up to 15 664 workers in 2009 and 2417 workers in 2010 (Mthente 2009).

The Lesotho foreign trade indicator in Table 1 indicate a challenging period for foreign trade between 2018 and 2022, marked by fluctuating import and export levels, a consistent trade deficit and a generally declining trend in trade's contribution to GDP. The COVID-19 pandemic likely played a significant role in the observed decreases in trade volumes between 2019 and 2020. While there were signs of recovery in 2021, the trade balance remained negative, and exports of services remained particularly low. Trade balance was consistently negative throughout the period increasing from $710 million in 2018 to $747 million in 2022.

Trade transaction cost theory

Exorbitant trade transaction costs restrict trade flows, limit trade volume and obstruct regional economic integration, in addition to severely distorting resource allocation (Ozekhome 2020). Theoretically, lowering these trade restrictions can promote economic expansion and more effective resource allocation. Exorbitant trade expenses hinder the most efficient allocation of resources and restrict the benefits of trade liberalisation, especially for developing nations (Bloch & Tang 2004; World Bank 2019). It is essential to lower these expenses to reap the full benefits of global commerce. Regional agreements can reduce trade costs and encourage increased commerce and economic growth by streamlining trade procedures, harmonising customs and coordinating border procedures (Hoekman & Nicita 2011; Ozekhome 2020; Portugal-Perez & Wilson 2009). Therefore, to improve trade, it is required to promote economic growth and enact trade reforms to streamline processes and cut costs.

Firm internationalisation theories (U shape and I shape model)

The global open market economy has given SMEs more chances to conduct business internationally. The Uppsala internationalisation model (U-model) and models linked to innovation (I-models) are the two main theoretical models that describe the process of corporations internationalising. While the two models portray internationalisation as a gradual process, their theoretical foundations are different. I-models, based on Rogers' diffusion of innovation theory, consider internationalisation as a succession of innovations with each level requiring significant learning and knowledge acquisition. In contrast, the U-model sees internationalisation as a progressive learning process affected by experience, knowledge and psychological distance.

I-models are better suited for small businesses and stress the role of top management and individual learning, while the U-model is often applied to large organisations and emphasises systematic organisational learning. According to Xin and Park (2024), foreign exploration in small businesses

TABLE 1: Lesotho foreign trade indicator.

Foreign trade indicators	2018	2019	2020	2021	2022
Imports of goods *(million USD)*	2185	1734	1380	1824	1856
Exports of goods *(million USD)*	1221	919	845	935	894
Imports of services *(million USD)*	493	447	378	407	442
Exports of services *(million USD)*	32	29	13	19	14
Imports of goods and services *(Annual % Change)*	1	-1	-1	n/a	n/a
Exports of goods and services *(Annual % Change)*	6	-13	-18	n/a	n/a
Trade balance *(million USD)*	-710	-719	-713	-753	-747
Foreign trade *(in % of GDP)*	143	136	134	139	n/a
Imports of goods and services *(% of GDP)*	94	92	93	94	n/a
Exports of goods and services (*% of GDP*)	49	45	42	46	n/a

Source: World Trade Organization (WTO), 2024, *Lesotho member profile – Notification portal*, viewed 30 October 2024, from https://notifications.wto.org/en/status-by-member/lesotho

USD, United States Dollar; GDP, gross domestic product; n/a, not available.

is driven by the individual as opposed to large businesses, which show structural determination. Unlike the U-model, which is deterministic, I-models allow corporations to skip phases, providing flexibility. Furthermore, I-models offer insightful data for research and policy as they represent the diversity of businesses more accurately at different levels of internationalisation (Uner et al. 2013). This study uses the I-models because of its emphasis on SMEs and the managerial influence on their internationalisation. These approaches, which focus on the value of individual learning and the function of senior managers in advancing the internationalisation process, are more suited for small businesses. According to Roque, Alves and Raposo (2020), the I-models offer a better framework for analysing the internationalisation of SMEs and the important effects of management activities.

Institutional theory

The relationship between institutional quality and economic growth, particularly through the lens of SMEs, involves the interplay between investment, production, trade opportunities and institutional frameworks. High-quality institutions, characterised by low corruption, minimal violence, robust law and order and effective governance are crucial for economic development (Khan, Khan & Naqvi 2022). Institutions, which include formal and informal rules such as laws, traditions and ethical codes, regulate individual behaviour through collective consent (Tajima 2007).

The World Bank emphasises the need for regulatory reforms to enhance the EODB (World Bank 2019). Adjusting existing regulations to foster a business-friendly environment is essential. Government regulations significantly impact SME profitability, as fewer regulatory constraints can reduce costs and increase profits, as exemplified by the banking sector (Igwe et al. 2018). However, reducing regulatory burdens does not guarantee higher profits if other aspects of the business are not well-managed (Pasiouras, Tanna & Zopounidis 2009). Excessive regulations can be counterproductive, consuming time that could be spent on more productive activities. For SMEs to fully benefit from reduced regulatory costs, they must manage their operations effectively.

Empirical reviews

Odhiambo and Malefane (2016) conducted an exploratory study to examine the significance of trade for Lesotho's economy, particularly focusing on the export sector. Their research highlighted the vital role of international trade in driving Lesotho's economic growth. They emphasised the importance of exports from the manufacturing sector and advocated for an export-led growth strategy alongside a liberalised trade policy. Morini et al. (2021) aimed to enrich existing theories by finding barriers that impede the export processes of small and medium-sized non-tech companies in emerging markets. These companies often struggle because of limited knowledge and resources. Using a confirmatory factor analysis (CFA) on 71 responses, their study found that external barriers, such as governmental and sociocultural challenges, were significant. Internally, market barriers and managerial attributes were critical. Their research underscored the complex interplay of internal and external factors in the export performance of non-tech SMEs. Sandrey, Matlanyane and Maleleka (2006) explored the implications of trade liberalisation in Lesotho within the SADC. Despite implementing trade liberalisation policies, the study revealed that overall trade had not been significantly affected. The new wave of trade reform analysis presents troubling insights for Africa. Necessary reforms are often hampered by supply-side constraints and non-tariff measures in export markets. Furthermore, lowering domestic tariff barriers can result in increased imports, reduced tariff revenue and output losses. These challenges are worsened by partial reforms in developed countries and potential trade diversion caused by regional agreements such as the proposed Economic Partnership Agreement (EPA), which may impose costs on developing African nations. Onwo, Sylvester Favor Udeorah and Ijeoma Emele Kalu (2021) examined the EODB – specifically trading across borders – and its impact on SME profitability in Port Harcourt, Nigeria. Using primary data from semi-structured questionnaires and interviews with 114 respondents (90 SMEs and 24 institutional representatives), the study found that prohibitive costs and lengthy time limits negatively affected SME profits. Issues such as many ambiguous levies and the non-functionality of the Port Harcourt seaport were identified as major obstacles.

Jovanović and Zubović (2019) investigated the relationship between the EODB and FDI in ex-socialist countries. Using the Generalized Method of Moments, their study showed that the 'trading across borders' component of EODB significantly influences FDI. For instance, Lithuania, with fewer annual payments (15), attracted more FDI than Montenegro, which had 66 payments annually. They concluded that less paperwork in export and import processes attracts more FDI, emphasising the importance of reducing administrative burdens to improve EODB and encourage business investments. Ghodsi et al. (2017) used a different identification strategy to examine the multilateral product volume effects of trade barriers. Analysing panel data from 1995 to 2014, they found that approximately 67% of NTMs had negative trade effects. The most restrictive measures were quantitative restrictions and countervailing duties, with sub-Saharan Africa experiencing the greatest import-restricting effects. Non-tariff measures were particularly restrictive for luxury, minerals, arms, ammunition and agri-food products.

Kee and Nicita (2016) focused on the impact of sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures, estimating bilateral product-specific ad valorem equivalents (AVEs) to understand discrepancies in product trading between countries. Their analysis, using a cross-sectional tariff line data set with 50 bootstraps, found an average AVE of 11.5%. Further research in a UNCTAD-World Bank (2019) report revealed AVEs of 11% for technical measures and 9% for non-technical measures, with high-income countries imposing higher AVEs for technical NTMs

and low-income countries for non-technical NTMs. They noticed that exporters from countries with lower per capita GDP faced higher AVEs.

Corcoran and Gillanders (2015) studied how EODB influences FDI. Their statistical analysis showed that FDIs are significantly concerned with the 'trading across borders' aspect of EODB. This factor is crucial for attracting FDI in developed nations but less so in less-developed countries, where foreign investors' motivations may vary based on their home country's investment practices. For example, American firms prefer investing in regions with robust trade regulations, while investors from other countries might prioritise varied factors. The 'trading across borders' aspect includes considerations such as time, cost and documentation required for importing and exporting goods.

A United Nations Economic Commission for Africa (UNECA) (2013) study on transaction trade costs in Africa highlighted significant obstacles to regional integration because of high trade costs. Indicators such as document requirements, time and cost to export, and import were critical barriers. De Melo and Tsikata (2014) confirmed that high international trade costs pose major challenges to trade and regional integration in Africa. They suggested that reducing these costs could enhance economic integration. Jouanjean, Gachassin and Tel-Velde (2015) supported this view, showing that improved trade infrastructure and reduced trade costs could significantly boost trade in sub-Saharan Africa. They showed substantial border effects on trade costs, showing that better regional infrastructure could unlock significant trade and growth opportunities. Ozekhome and Oaikhenan (2020) examined the impact of export trade facilitation, particularly export transaction costs, on export performance in the Economic Community of West African States (ECOWAS). They concluded that reducing export transaction costs could significantly enhance export performance in the region.

Methodology

The study was based on the primary data from National University of Lesotho (NUL) – World Trade Organization data repository on international trade from firms and key informants in Lesotho. The data highlight the very obscure data space on international trade in Lesotho. Our analysis was based on R version 4.2.2 output.

The nature of this study was quantitative. The study adopted a multi-stage sampling technique for the Firm Survey on International Trade Issues. A sample of 153 firms was surveyed across five districts of Butha-Buthe, Leribe, Maseru, Mafeteng and Mokhotlong in Lesotho. The questionnaire used for data collection was developed from the extensive literature review based on the overall trading experience of respondents in Lesotho. The questionnaire consisted of both structured and open-ended questions. A statistical technique based on CFA was used to verify the factor structure of a set of observed variables (Brown 2015 & Bryne 2010). The observed variables are the actual variable that we directly measure through collated datasets from respondents. Confirmatory Factor Analysis was employed to test whether measures of a construct are consistent with our understanding of the nature of those constructs, which are not directly observable but are inferred from measured variables. With this method, links between observable variables and the latent constructs that underlie them may be verified.

The research moves on to SEM, a thorough statistical method based on Full Information Maximum Likelihood Estimation that combines multiple regression and component analysis. We were able to evaluate both direct and indirect effects among variables as our study examined the structural relationship between observable variables and latent constructs based on theoretical linkage (Henseler 2017:181–186; Hoyle (2012).

Ethical considerations

This article does not contain any studies involving humans and/or animals performed by any of the authors.

Results and discussion

Confirmatory factor analysis

Confirmatory Factor Analysis was used to assess the validity of the measures. The items were subjected to CFA, using full information maximum likelihood (FIML) estimation procedures in R using Lavaan. In this model, each item was restricted to load on its pre-specified factor, with the 18 first-order factors allowed to correlate freely. The model has a good fit as indicated by the Chi-square test (p-value = 0.124), CFI (0.957), TLI (0.942), RMSEA (0.054) and SRMR (0.059). These indices suggest that the specified model is a good representation of the data as shown in Online Appendix 1; all constructs present the desirable levels of composite reliability (Bagozzi 1980). Convergent validity was evidenced by the large and significant standardised loadings of each item on its intended construct (average loading size was 0.81). Discriminant validity among the constructs was assessed using the Fornell and Larcker (1981) test; all possible pairs of constructs passed this test. Evidence of discriminant validity was revealed by the fact that the shared variance among any two constructs (i.e., the square of their intercorrelation) was less than the average variance explained in the items by the construct (Ab Hamid, Sami & Sidek 2017; Fornell & Larcker 1981; MacKenzie, Podsakoff, & Rich 2001).

Structural equation model

Model fit and significance testing

The hypotheses were tested using FIML estimation procedures in *R* version 4.2.2. The estimation results for the significant structural paths are exhibited in Figure 1. The results of the structural equation model testing indicate an acceptable fit. The user model compared to the baseline model yields a Chi-square test statistic of 71.129 with 50 degrees of freedom and a p-value of 0.026. This suggests that the user model fits significantly better than the baseline

model because the *p*-value (0.026) is less than the conventional significance level of 0.05. Both indices (CFI = 0.962, TLI = 0.941) indicate a good fit of the model, with values close to or above the threshold of 0.95 for CFI and TLI. The RMSEA is 0.053 with a 90% confidence interval of [0.019, 0.079]. The *p*-values for RMSEA suggest that the model does not significantly deviate from good fit ($p \geq 0.05$ for both tests).

Parameter estimates

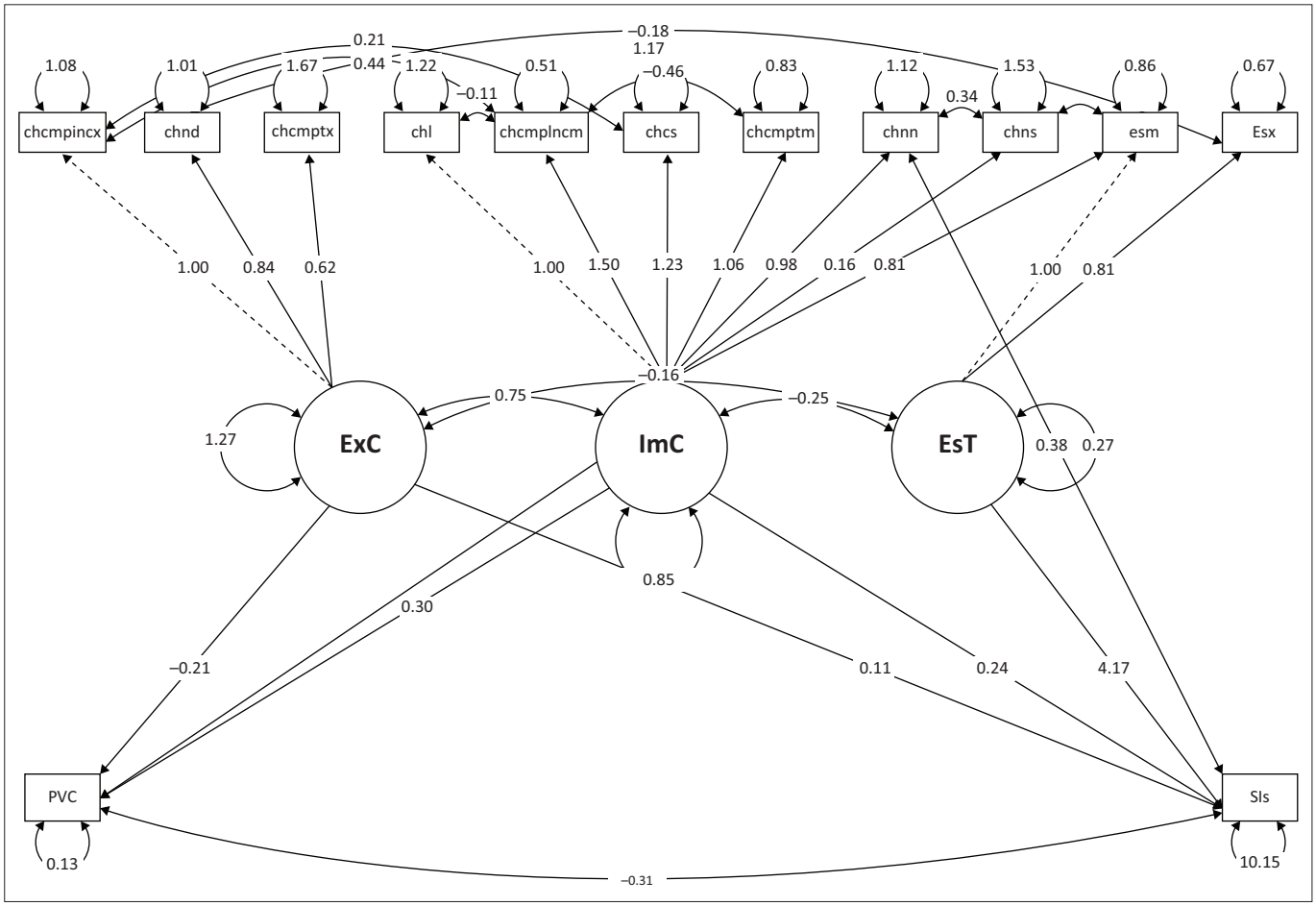
In examining the factors influencing trade in Lesotho, it was found that informal restrictions (Chindrestrictx) and export competitiveness (chcompetex) significantly impact Export Constraints (ExConstraints). Informal restrictions had a standardised coefficient estimate of 0.835, with a standard error of 0.126 and a *z*-value of 6.620. Export competitiveness had a standardised coefficient estimate of 0.622, with a standard error of 0.117 and a z-value of 5.319. Both indicators had *p*-values of 0.000, indicating they significantly load on the latent variable Export Constraints.

Similarly, Limited Access to Trade Finance (Chltdaccfinim) significantly impacts Import Constraints (ImConstraints) with a standardised coefficient estimate of 1.496, a standard error of 0.187 and a *z*-value of 8.019. The *p*-value of 0.000 confirms this significance. Other factors such as import standard compliance (chcomplianceim), customs and border procedures, import competitiveness, security and safety and insufficient information on the foreign market also significantly impact Import Constraints, each with *p*-values of 0.000.

Ease of Export, another critical observed variable, has a standardised coefficient estimate of 0.813, with a standard error of 0.256 and a *z*-value of 3.181. Its *p*-value of 0.001 indicates it significantly impacts the Ease of Doing Trade.

Export Constraints explain a significant portion of the variance in Informal Restrictions and export competitiveness, with standardised coefficient estimates of 0.835 and 0.622, respectively. This highlights their strong relationship with export constraints. Import Standard Compliance, Customs and Border Procedures, import competitiveness, security and safety and insufficient information on the foreign market significantly correlate with import constraints, with coefficients of 1.496, 1.232, 1.060, 0.977 and 0.808, respectively.

Regarding SME trade Participation (PartVC), export constraints have a regression coefficient estimate of –0.214, a



chcmpincx, standards compliance constrains (export); chnd, informal restriction constrains (export); chcmptx, competitiveness constrains (export); chl, limited access to trade finance constraint (import); chcmplncm, legal requirements constraint (import); chcs, customs and border procedures constraint (import); chcmptm, competitiveness constraint (import); chnn, security and safety constraint (import); chns, informal restrictions constraint (import); esm, ease of import; Esx, ease of export; ExC, Export Constraints; ImC, Import Constraints; EsT, Ease of Doing Trade; Sls, Estimated Annual Sales (2022); PVC, Participation in Value Chain.

FIGURE 1: Summary of significant relationships. For simplicity of depiction, we have not included non-significant relationships, observable indicators, factor loadings, measurement and latent errors, inter-factor correlations or -values.

standard error of 0.068 and a *p*-value of 0.002, indicating a significant negative relationship. This suggests that an increase in export constraints leads to a decrease in SME trade participation by 0.214 units. Conversely, import constraints have a significant positive relationship with SME trade participation, with a coefficient estimate of 0.302, a standard error of 0.080 and a *p*-value of 0.000. Thus, an increase in import constraints leads to an increase in SME trade participation by 0.302 units.

For Trade Performance (Sales), Ease of Doing Trade has a coefficient estimate of 4.170, a standard error of 2.091 and a *p*-value of 0.046, indicating a marginally significant positive relationship. This means that for each one-unit increase in Ease of Doing Trade, Trade Performance is expected to increase by 4.170 units. However, other regressors such as export and import constraints do not significantly impact Trade Performance.

Covariance among the latent variables reveals a significant positive covariance of 0.747 between Export Constraints and Import Constraints, with a standard error of 0.153 and a *p*-value of 0.000. Conversely, Import Constraints and Ease of Doing Trade have a significant negative covariance of –0.247, with a standard error of 0.082 and a *p*-value of 0.002. Additionally, SMEs' Trade Participation and Trade Performance have a significant negative covariance of –0.309, with a standard error of 0.122 and a *p*-value of 0.012.

Discussion

On the latent variables export constraints, import constraints and ease of doing trade – Export Constraints encompass factors that influence export activities. In the SEM output, indicators such as Informal Restrictions and Export Competitiveness are significant, implying that constraints related to compliance and industry restrictions impact export performance. These findings align with trade theory, where barriers to entry, regulatory compliance and industry-specific competitive factors can affect a country's export potential (Krugman & Obstfeld 2020). External constraints include factors such as regulatory compliance, trade barriers and competition from foreign firms. According to the New Trade Theory and the Gravity Model of Trade, external constraints can significantly impact trade flows and firm performance. The New Trade Theory posits that economies of scale and network effects can create barriers to entry, affecting the competitive landscape (Krugman 1979, 1980). The significant loadings of indicators such as export standard compliance, informal restrictions and export competitiveness align with these theories, indicating that regulatory and competitive pressures are crucial external constraints. This finding is corroborated by the outcome of Qiang et al.'s (2021) study on provinces in China. Their outcome revealed that regulations in the short run have a restraining effect on export trade. However, in the long-term the same regulation, given sufficient innovation would result in a promoting effect on export trade.

The Import Constraints latent variable reflects factors influencing import activities. Indicators such as limited access to trade finance, import standard compliance and customs and border procedures are significant, indicating that financial, compliance-related and customer processing constraints impact import operations. Trade theory supports the idea that import constraints such as regulatory compliance, financial accessibility and supply chain complexities can affect a country's ability to import efficiently (Feenstra & Taylor 2020). Internal constraints involve financial limitations, compliance with internal policies and competition. The Resource-Based View (RBV) of the firm suggests that internal resources and capabilities are critical to achieving competitive advantage and driving firm performance (Barney 1991). The significant loadings for indicators such as limited access to trade finance, import standard compliance and import competitiveness reflect the importance of internal financial and compliance capabilities in shaping firm outcomes. The outcome of Morini et al.'s (2021) work similarly supports this view by finding that external barriers, such as governmental and sociocultural challenges, were significant. They also revealed that internally, market barriers and managerial attributes were also a critical factor in internationalisation of firms.

Ease-of-Trade represents the ease of trading conditions, encompassing indicators such as Ease of Import and Export. These indicators are significant, suggesting that factors influencing the ease of importing and exporting (such as tariffs, trade agreements and administrative procedures) impact overall trade facilitation. Trade theory emphasises that ease-of-trade conditions, including reduced tariffs and streamlined administrative processes, can enhance trade efficiency and volume (eds. Baldwin & Evenett 2021). According to the Trade Facilitation Theory, improving logistics and reducing trade barriers can enhance trade efficiency and firm performance (Sénquiz-Díaz 2021). The indicator Ease of Import highlights the importance of import facilitation in this construct.

On the regression path for SME trade participation (PartVC), export constraints have a regression coefficient estimate of –0.214, with a standard error of 0.068 and a *p*-value of 0.002. This indicates a significant negative relationship between SME trade participation and export constraints. A coefficient of –0.214 suggests that for each one-unit increase in export constraints, SME trade participation is expected to decrease by 0.214 units, assuming all other variables in the model are held constant. This finding is in alignment with extant literature like the study by Roy, Sekhar and Vyas (2016) that examines the internal and external barriers to SMEs internationalisation in India. Their study revealed that external barriers such as procedural, currency barrier and economic, political and legal barriers significantly reduced small businesses participation in international trade. Import constraints have a significant regression coefficient estimate of 0.302 on SME trade participation, with a standard error of 0.080 and a *p*-value of 0.000. This indicates a significant positive relationship between SME trade participation and import constraints. A coefficient of 0.302 suggests that for each one-unit increase in import constraints, SME trade

participation is expected to increase by 0.302 units, assuming all other variables in the model are held constant. At first glance, this appears to be counterintuitive; however, empirical studies revealed that import constraints might drive domestic firms to innovate and expand production thus resulting in significant export expansion and overall trade participation, achievable through proactive strategies (Nguyen, Nguyen & Thai 2019).

On the regression path for Trade Performance (Sales), Ease of Doing Trade has a coefficient estimate of 4.170, with a standard error of 2.091 and a *p*-value of 0.046. This indicates a marginally significant positive relationship between Trade Performance and Ease of Doing Trade. A coefficient of 4.170 suggests that for each one-unit increase in Ease of Doing Trade, Trade Performance is expected to increase by 4.170 units, assuming all other variables in the model are held constant. This finding intuitively agrees with trade theories and previous studies. For instance, Chala (2024) averred based on the outcome of his study on that EODB, such as customs duties reduction and simplified procedures for new businesses in SSA, improves the countries' level of participation and involvement in higher GVC. For other regressors in the model, such as export constraints and import constraints, there is no statistical significance for Trade Performance. Hence, based on the available data, the relationship between Trade Performance and import constraints is not significantly different from zero.

Regarding covariance among the latent variables, Export Constraints and Import Constraints have a covariance estimate of 0.747, with a standard error of 0.153 and a *p*-value of 0.000. This indicates a significant positive covariance between Export Constraints and Import Constraints. Conversely, Import Constraints and Ease of Doing Trade have a covariance estimate of –0.247, with a standard error of 0.082 and a *p*-value of 0.002. This indicates a significant negative covariance between Import Constraints and Ease of Doing Trade. SMEs' Trade Participation and Trade Performance have a covariance estimate of –0.309, with a standard error of 0.122 and a *p*-value of 0.012, indicating a significant negative covariance between SMEs' Trade Participation and Trade Performance.

Limitations

While this study provides unique findings, it is crucial to acknowledge its limitations. We will discuss potential future study areas in light of the constraints and as extensions of them. Firstly, because this study used a cross-sectional survey methodology, the approach is subject to its standard constraints, such as cross-sectional design and common methodology. Despite our best efforts, we were unable to fully capture the dynamics of the exporting phenomenon because many of the trade-impeding variables take time to resolve. This is because the status of import and export constraints must have remained unchanged for a significant time. Subsequent investigations ought to aim to surmount this constraint.

Secondly, common method variance may have been produced by the survey methodology, possibly inflating the relationship among constructs. This inflation could be particularly threatening if the respondents were aware of the conceptual framework of interest. However, if common method bias exists, a CFA containing all constructs should produce a single method factor (Podsakoff & Organ 1986). The goodness-of-fit indices (Chi-Square) indicate a poor fit other measure confirmed a good fit validating our result. Future research could address this issue via data collection from multiple sources and a much larger sample size (Skarmeas, Katsikeas & Schlegelmilch 2002) for the importer side. Thirdly, the research context limits the findings. The fact that the research context involved only one country and small to moderate-sized firms may limit the generalisability of the results to some degree. However, sub-Saharan African countries in situations such as that of Lesotho, especially those within SADC, which have similar trade agreements with other countries may also benefit from the findings. Extending beyond the limitations, this research provides a foundation for significant research endeavours to advance the field. For example, this research has shown the impact of import and export constraints on trade participation and trade performance.

Conclusion and recommendation

The SEM study emphasises how trade-related activities are significantly impacted by import and export restrictions as well as trade facilitation. Trade participation is adversely affected by export limitations, particularly those related to compliance and industry. On the other hand, import restrictions – such as those about finances and compliance – have a favourable impact on trade and value chain involvement. Tariffs and administrative processes included in the category of ease-of-trade have a marginally significant positive influence on trade performance, indicating that favourable trading circumstances improve trade performance. These results are consistent with well-established trade theories, highlighting the need to lower trade barriers and enhance regulatory environments to enable effective trade operations.

To enhance participation in GVCs and boost Trade Performance, policymakers should focus on reducing export constraints by streamlining compliance and reducing industry-specific restrictions. Improving access to financial resources and simplifying import compliance procedures will further support import activities. In addition, enhancing ease-of-trade through reduced tariffs and streamlined administrative processes can significantly contribute to better trade facilitation and increased Trade Performance. A comprehensive approach addressing both export and import constraints, along with improving trade conditions, will promote more efficient and robust trade activities. Removing key trade constraints in Southern and Eastern Africa will increase trade and export potential across trading groups, including big business, SMEs, informal traders and female traders. There are compelling economic and equity arguments for ensuring that typically poorer traders – such as women

and informal businesses – benefit from regional integration initiatives (Bird et al. 2009).

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Competing interests

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

Authors' contributions

O.J.A. conceived the study. The literature, methodology, analysis and discussion of findings was done by O.O.O. and O.J.A., O.O.O. and O.J.A. contributed in reviewing and approved the final article for submission.

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Data availability

The data that support the findings of this study are available from the corresponding author, O.O.O., upon reasonable request.

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