



TRADE POLICY FRAMEWORK

ZAMBIA

**Harnessing the Potential
for Trade and Sustainable Growth in Zambia**





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ACRONYMS

AFDB	African Development Bank
AGOA	African Growth and Opportunity Act
BOP	balance of payments
BOZ	Bank of Zambia
BRICS	Brazil, Russian Federation, India, China and South Africa
CFTA	Continental Free Trade Area
CITES	United Nations Convention on International Trade in Endangered Species
COMESA	Common Market for Eastern and Southern Africa
CSO	Central Statistical Office
DFID	Department for International Development
DTIS	diagnostics trade integration study
EAC	East African Community
EBA	Everything But Arms
EPA	Economic Partnership Agreement
FDI	foreign direct investment
FSP	Farmer Input Support Programme
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GDS	gross domestic savings
GNI	gross national income
GRZ	Government of the Republic of Zambia
GSP	Generalized System of Preferences
HDI	human development index
HHI	Herfindahl-Hirschman Index
IAPRI	Indaba Agricultural Policy Research Institute
IMF	International Monetary Fund
ITC	International Trade Centre
LCMS	living conditions and monitoring survey
MCTI	Ministry of Commerce, Trade and Industry
MFN	most-favoured nation
MSME	micro-, small- and medium-sized enterprise
NWGT	National Working Group on Trade
n.d.	no date
OECD	Organization for Economic Cooperation and Development
PPP	public-private partnerships
REC	Regional Economic Community
SADC	Southern African Development Community
SNDP	Sixth National Development Plan
SPS	sanitary and phytosanitary
TFA	Trade Facilitation Agreement
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WTO	World Trade Organization
ZDA	Zambia Development Agency
ZNFU	Zambia National Farmers Union

EXECUTIVE SUMMARY

Since its independence in 1964, Zambia has been overly dependent on the production and export of copper and, initially, a few agricultural exports such as tobacco, maize and timber. The high copper dependency was somewhat alleviated by the reform period, which started hesitantly in 1985 and more purposely in 1991. During this period, different policy initiatives were initiated to promote non-traditional exports. These increased significantly over the years and reduced the share of copper exports to total exports by about 30 per cent. The range and diversity of non-traditional exports also increased but were limited to auxiliary activities related to copper mining, primary agricultural products and processed products from agriculture, timber and non-metal products. There were very few service exports.

The country is still facing the same basic problem it has faced over the years, namely the dominance of copper exports and the overwhelming difficulties in exploiting trade opportunities and diversifying the economy into new high-value industries. The country's economic performance collapsed during the period between 1970 and the late 1990s. It was not until 1999 that the economy began to grow again. The GDP real growth rate thereafter accelerated in each year reaching 6 per cent in 2013. The surge of real growth has, however, not been inclusive, and there have been no discernible policy efforts to use the realized growth to diversify the economy and the export base, and to reduce poverty levels.

The country's broad developmental strategy is to pursue an outward-oriented export-led trade strategy based on open markets and international competition. The aim is to create opportunities for the country to integrate into the world economy. Zambia's trade policy has been set out in several policy papers and in the national trade policy document, with tariff reform being the main instrument. Trade policy is important in making a contribution to meeting the nation's development objectives and to sustaining and reducing risks to the current growth process. An effective trade policy will spur further real growth and boost employment, incomes and exports. However, the design and implementation of Zambia's trade policy needs to take into account the constraints and challenges that the country faces, including the its small, resource-based internal market, widespread poverty and being landlocked with long distances to major ports. These adversely affect productivity and competitiveness.

This paper sets out the country's existing trade policy framework and identifies areas of possible reform and options for maximizing the contribution of trade to inclusive growth and sustainable development. It contains a review of the macroeconomic and trade performance of the economy between 1995 and 2013. It discusses the current trade policies and institutions so as to identify the major opportunities and challenges inherent in the Zambian economy and outlines the options for enhancing Zambia's trade and sustainable real growth in the economy.

Following a review of Zambia's trade performance and the current tariff structure, the framework recommends a strategic trade policy calibrated to support industrial sector interests. Tariff-setting is an essential component of improving Zambia's trade performance but is not the sole determinant. Other factors play a critical role in preventing the country from increasing its exports and ultimately the creation of employment, increased incomes and reduction of poverty, such as the cost of doing business and high trade costs. The framework sets out the principles, approaches and key elements that should shape Zambia's strategy for integration into the global economy. Recognizing the growing complexity of trade policy in a rapidly changing global environment, the framework offers an agenda for future work on trade policy by outlining a number of recommendations.

Zambia has seen significant diversification in the export sector with an increase in non-traditional exports, but the economy is still highly dependent on copper exports. The country has also enjoyed positive real growth that has been fuelled by high copper prices and significant FDI inflows into the mining sector. However, this poses a major external risk to Zambia's future growth because the country is heavily dependent on the high price of copper to sustain the growth process. Furthermore, the growth process has not been inclusive and has not significantly reduced poverty levels in the country, which are still very high. Zambia's exports have also not grown significantly in real terms as they are limited in volume and value addition, and by a lack of competitiveness. These have been accelerated by high production and trade costs.

The country therefore needs to go beyond tariff reform and permanent seeking of preferential trading arrangements. Although tariff reform is important and has in the past been an element of Zambia's growth path, attention needs to be given to other factors. The framework paper makes recommendations on trade policy to enhance broader real growth in light of the lessons learned and emerging challenges. Regional trade needs to be harnessed for diversification and value addition. This can be done by addressing the immediate constraints to increased trade, including the cost of doing business and the competitiveness of the domestic telecommunications, transport, financial services and energy sectors.

Several recommendations emerge from the paper:

- (a) Policymakers should maintain a stable macroeconomic environment, keeping the inflation rate low, fiscal deficits stable and the exchange rate flexible in order to support trade policies and strategies to promote export production and increased exports;
 - (b) To support increased trade, Zambia must focus on activities that increase regional trade. Zambia's negotiations at the multilateral level must support the country's objective to achieve diversification and value addition in the region through the Trade Facilitation Agreement, EPAs and AGOA;
 - (c) Zambia must continue to support negotiations at WTO in relation to the liberalization of market access for both agricultural and non-agricultural trade. It should participate in global rule-making, aiming to protect and preserve policy space to pursue national objectives and to support the emergence of a global trading system that is supportive of Zambia's developmental objectives and interests;
 - (d) As regards the Singapore issues (trade facilitation, investment, Government procurement and competition policy) which are under negotiation at WTO, the country should address these at the bilateral or plurilateral levels before they can be pushed at WTO or multilateral level. Much can be learned from designing and implementing the new rules in this way, which will be beneficial for WTO or multilateral negotiations;
 - (e) Policymakers should work towards building a competitive economy. This will require focusing on reducing the production and trade costs. Key to this is the organization of the domestic services sector and its capacity. Policymakers must work towards increasing competition and pushing for regulatory reform. The country should establish a strong base of domestic services reform spearheaded by MCTI;
 - (f) To promote the services agenda, Zambia should pursue the "4 plus 5 strategy". This consists of unilateral liberalization at WTO in financial services, telecommunications, transport and energy services sectors, and liberalization at the regional level of business and professional services, communication services, financial services, transport services and labour mobility in respect of the entry of business persons;
 - (g) Zambia should bind the de facto opening of the telecommunications and commercial banking sectors at WTO. These sectors are of import interest to Zambia, and their opening is already agreed at the regional level, at COMESA and SADC. Binding at WTO would allow the country to attach conditions for development purposes, using GATS articles IV and XIX;
 - (h) Zambia should maintain its current applied MFN tariff structure. However, to support its industrial policy, it should implement a strategic tariff policy that takes account of industry policy sector strategies. In order to do this, a tariff commission responsible for setting Zambian tariffs and managing and resolving any trade issues that might arise, should be set up;
 - (i) Most of Zambia's non-traditional trade is in the regional market. Zambia should seek deeper integration in the region. The COMESA-EAC-SADC Tripartite is an important step in advancing the regional integration agenda and advancing trade across Africa. Zambia already enjoys access to all Tripartite countries through current preferential trade arrangements. The major benefits for Zambia will be the reduction in trading costs in the Tripartite through a joint infrastructural development programme, trade facilitation activities and harmonization of rules of origin;
 - (j) To increase its exports to the region, the country should increase the presence of Zambian firms in the region. This can be done by encouraging the opening of Zambian wholesale and retail outlets by the
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private sector in regional markets, with supply chains from Zambian agricultural and agro-processing sectors. To support the initiative and motivate exporters, the Government can provide a subsidy on the rental cost of the retail outlets or warehouses for example, for three years. The Government can also give subsidized credit to successful regional exporters in order to mitigate the high costs of obtaining information in export markets;

- (k) Zambia should encourage FDI inflows into industry, agriculture and services to take advantage of efforts at value addition for local products and diversification of the economy. This will not happen unless production and trade costs are reduced. Furthermore, to benefit from regional and global value chains, the efficiency of Zambia's services sector should be enhanced;
 - (l) To address the challenges of being landlocked, Zambia should support regional integration initiatives to influence neighbouring countries' policies on infrastructure development and trade facilitation, and prioritize the development of the services sector;
 - (m) Zambia needs to develop production networks and supply chains with the regional economy to take advantage of production unbundling, diversification and value addition. Coupled with lower trading costs, this will enhance the competitiveness of Zambian firms, attract FDI, and facilitate industrialization, trade and growth;
 - (n) The Government should make efforts to improve the quality, accuracy and consistency of trade data, thereby alleviating a significant constraint on policymaking, business decision-making and trade. This has to be done both at MCTI and CSO through investments in hardware and training of human resources. MCTI should also use international competitiveness frameworks – the World Economic Forum Global Competitiveness Index and Enabling Trade Index, the World Bank Doing Business Report and the UNCTAD *World Investment Report* – to benchmark national policies and actions. It should use them as measures of best practice and for benchmarking domestic competitiveness. It should integrate them into a national trade policy monitoring and evaluation framework;
 - (o) MCTI should institutionalize a consultative process with stakeholders, especially the private sector. NWGT should be a permanent structure in the ministry. It is suggested that a cabinet ministerial committee on trade deal with the various trade issues that arise both at policy formulation and implementation;
 - (p) MCTI should be structured to enable it to more effectively address issues arising from the domestic services sector. One option is to merge the Department of Domestic Trade with the Department of Industry;
 - (q) The private sector must see the link between trade negotiations and its ability to do business in the region and globally. An institutional structure must be created which involves all participants in the private sector. This should involve both foreign and local firms and small- and medium-sized firms. To encourage participation, the Government could make deductible the membership fees for recognized private sector organizations tax.
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CONTENTS

- Note ii
- Acknowledgements iii
- Acronyms iv
- Executive summary v
- 1. INTRODUCTION..... 1**
 - 1.1. Trade and development in Zambia 2
 - 1.2. Policy context 3
- 2. THE ZAMBIAN ECONOMY: CONTEXT AND STYLIZED FACTS 5**
 - 2.1. Macroeconomic context 6
 - 2.2. Socioeconomic context 7
 - 2.3. Composition of production and trade 9
 - 2.4. Selected trade performance indicators 21
- 3. ZAMBIA'S TRADE POLICY AND RELEVANT INTERNATIONAL POLICY ENVIRONMENT..... 25**
 - 3.1. At the border 26
 - 3.2. Behind the border 31
 - 3.3. Beyond the border 33
 - 3.4. Trade process and negotiations 38
 - 3.5. Timelines in the Zambian trade reform effort 40
- OPTIONS FOR ENHANCING ZAMBIA'S TRADE POLICIES AND STRATEGIES 43**
 - 4.1. Addressing issues at the border 44
 - 4.2. Addressing behind the border issues 44
 - 4.3. Addressing issues beyond the border 47
- 5. CONCLUSION AND POLICY RECOMMENDATIONS 49**
- References 57
- Endnotes 61

Tables

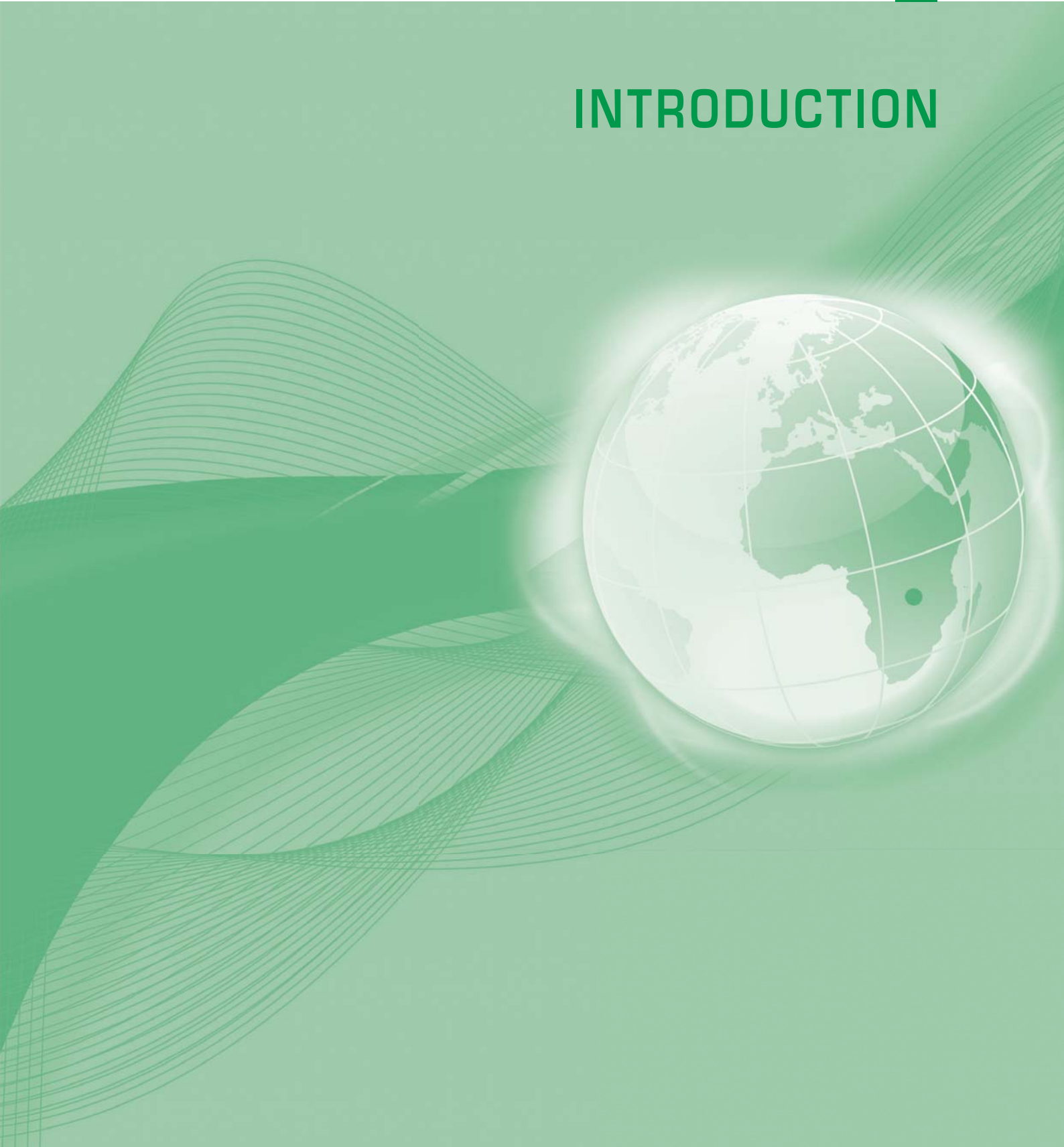
Table 2.1.	Selected macroeconomic indicators, 1995–2013.....	6
Table 2.2.	Selected socioeconomic indicators, 1995–2013	7
Table 2.3.	Establishments and employees by sector in Zambia, 2012 and 2010.....	11
Table 2.4.	Agriculture national budget allocations, 2009-2014 (Percentage)	12
Table 2.5.	Annual stocks and per capita stocks of livestock and poultry, 1998-2013	14
Table 2.6.	Distance to livestock services.....	14
Table 2.7.	Telecommunication performance indicators, 2012.....	19
Table 3.1.	Zambia’s MFN and preferential tariffs.....	26
Table 3.2.	Average MFN applied and bound tariffs for agricultural products (Percentage).....	27
Table 3.3.	Average MFN applied and bound tariffs for industrial goods (Percentage).....	28
Table 3.4.	Scheduled horizontal commitments of Zambia at WTO	29
Table 3.5.	Scheduled specific commitments of Zambia at WTO	29
Table 3.6.	NTBs that affect imports into Zambia from SADC and COMESA.....	30
Table 3.7.	Ease of doing business indicators: Trading across borders.....	30
Table 3.8.	Global Competitiveness Report: Goods market efficiency indicators – Zambia	30
Table 3.9.	MFN tariff escalation in developed countries for products of interest to Zambia.....	34
Table 3.10.	Non-tariff barriers that directly affect Zambian exports to SADC and COMESA, 2007	34
Table 3.11.	Main trade-related reform measures, 1991–2009	41
Table 4.1.	Non-traditional export earnings by market or region, 2008–2013 (Current million dollars)	47

Figures

Figure 2.1.	Poor and non-poor subpopulation, 2010 (In millions).....	8
Figure 2.2.	Gini coefficient, 1991–2010 (Percentage)	8
Figure 2.3.	Real GDP growth estimates, based on alternative data sources, 1995-2013 (Percentage)	10
Figure 2.4.	Composition of the Zambian economy, 1995 and 2013 (Value added percentage of GDP).....	10
Figure 2.5.	Zambia’s copper production and world copper prices, 1997-2013	11
Figure 2.6.	Production and prices of maize and groundnuts, 1995–2013.....	12
Figure 2.7.	Production and prices of soybeans and wheat, 1995–2013 (Thousand dollars).....	13
Figure 2.8.	Industrial production index, 2008-2012 (Year-on-year percentage change).....	15
Figure 2.9.	Merchandise and services trade, 1997–2013 (Million dollars).....	16
Figure 2.10.	Merchandise exports (traditional versus non-traditional), 1997–2013.....	17
Figure 2.11.	Non-traditional export earnings by market or regions, 2008–2013 (Current million dollars).....	17
Figure 2.12.	Structure of trade in services (Million dollars)	19
Figure 2.13.	Composition of services exports, 1997–2013 (Percentage).....	20
Figure 2.14.	Composition of service imports, 1997–2013 (Percentage).....	20
Figure 2.15.	Export shares in total world exports, 1964-2012 (Percentage).....	21
Figure 2.16.	Average export growth and shares by country or region (Percentage)	21
Figure 2.17.	Composition of Zambian manufactured exports as a share of total exports (Percentage)	22
Figure 2.18.	Herfindahl-Hirschman index of market concentration, exports, 1995-2013	23
Figure 3.1.	Zambia and European Union Trade, 2003–2013 (Thousand dollars)	35
Figure 3.2.	Zambia and BRICS trade, 2003–2013 (Thousand dollars)	37
Figure 3.3.	Zambia total exports and imports to COMESA, 2000–2013 (Thousand dollars).....	37
Figure 3.4.	Zambia total exports and imports to SADC, 2000–2013 (Thousand dollars).....	38



INTRODUCTION



1.1. Trade and development in Zambia

There are probably very few countries in the world that have been as overly dependent on the production and export of one commodity as Zambia has been on copper (ECA/UNCTC 1984: 21). In 1964, the year Zambia gained independence, copper exports contributed about 94 per cent of total exports. The other exports were a few agricultural products such as tobacco, maize and timber.

This high copper dependency has, however, been somewhat alleviated since the reform period, which started hesitantly in 1985 and more purposely in 1991. This period saw several policy initiatives to promote non-traditional exports, which have increased over the years. Non-traditional exports increased significantly, so that by 2013 copper contributed a lesser share of about 68 per cent of total exports, compared with 94 per cent in 1964 (ECA/UNCTC, 1984: 21). The range and diversity of non-traditional exports also increased but were limited to auxiliary activities related to copper mining, primary agricultural products and processed products from agriculture, timber and non-metal products. There were very few service exports.

However, Zambia is still facing the same basic problem it has faced over the years, namely the dominance of copper exports and the “overwhelming difficulties in exploiting trade opportunities and diversifying into new high value industries” (MCTI, 2005: 6).

Regarding overall economic performance, high copper revenues at independence helped to produce robust growth during 1964–1969. The real GDP growth rate per annum averaged 10.9 per cent, and copper revenues as a share of total revenues averaged above 40 per cent. The Government tried to spread the benefit of this growth through the building of roads, schools and hospitals. There were no discernible policy efforts to use this growth to diversify the economy and the export base though, despite the external risk that the structure of the economy posed to future sustainable growth. Although export diversification was discussed, there were no clear strategies to connect this to export performance. Furthermore, poverty levels continued to be high.

The growth process showed signs of unsustainability in 1970 and finally collapsed in 1974. The annual average real GDP growth rate fell to 1.5 per cent in

the 1970s, 1.4 per cent in the 1980s and 0.2 per cent in the 1990s. It was not until 1999 that the economy began to grow again. Real GDP grew by 2.2 per cent in 1999. The growth rate has thereafter accelerated each year, reaching 6 per cent in 2013. This is expected to increase further to about 7 per cent in 2015. The country is, however, yet to achieve the high growth rates achieved during the late 1960s. Furthermore, this recent surge of growth has not been inclusive and has had a faint impact on reducing the levels of poverty in the country (Bwalya et al 2011; World Bank 2013a).

The recent positive growth was brought about by the restructuring of the economy and improved macroeconomic management fostered by the reform process initiated by the World Bank and the International Monetary Fund (IMF), high copper prices and increased FDI inflows especially in the copper sector. Two distinct reform periods can be identified, namely the reform period of the late 1980s and the early-1990s reforms.

During the reform period in the late 1980s, there was growing recognition, albeit initially hesitantly, that the external sector needed opening up and that trade could play a major role in resurrecting growth in the country. There was, thereafter, a major effort to reform and design trade policies to achieve that. This was done within the context of the reform process initiated by the World Bank, IMF and bilateral donors. The initial focus was on increasing the share of non-traditional exports. The issue of reform was not seen in terms of the overall competitiveness of the economy. Overall competitiveness ultimately has to do with the way production is organized in the various sectors of the economy and the way the economy is organized to resolve trade issues within the country, at the border and beyond.

Trade policy is important to enable the country to sustain and reduce risks to the current growth process. Adequate trade policy will spur further growth and boost employment, incomes and exports. However, trade policy in Zambia must take the country's specific difficulties and special circumstances into account in its design and implementation. The country has a small, resource-based internal market, widespread poverty and is landlocked with long distances to major ports.

The purpose of this paper is to assess the country's existing trade policy framework, identify areas of

possible reform and offer options for maximizing the contribution of trade to inclusive and sustainable development. This is done by reviewing the country's trade performance, policies, measures and institutions.

The rest of this paper is organized as follows. The remainder of section 1 looks at the policy context of trade and development in Zambia as the underlying context of the framework paper. Section 2 looks at the performance of the economy between 2005 and 2013. Section 3 looks at the trade policy framework, while section 4 discusses the options for enhancing Zambia's trade. The paper is concluded in section 5.

1.2. Policy context

Any trade policy framework and strategy should emanate from the aspirations of the nation and the various stakeholders as to what kind of society and economy they want to create. Following various country-wide consultations lead by the Ministry of Finance (MOF), all stakeholders in Zambia envision the creation of a prosperous middle-income nation by 2030. This long-term perspective has been articulated in the Vision 2030 statement (GRZ, 2006). The vision is to transform the country into "an economy which is competitive, self-sustaining, dynamic and resilient to any external shocks" (GRZ, 2006: 2). Furthermore, that economy should be diversified with strong links between the agricultural, industrial and service sectors and integrated into regional and global economies (GRZ, 2006: 2).

This vision is operationalized through five-year national development plans. Currently, the Sixth National Development Plan (SDNP) 2011–2015 is being implemented as the overall strategy document for creating jobs, raising incomes, growing the economy and reducing poverty. This strategy assigns to trade policies the overall objective of creating an "export driven, competitive and viable trade and commerce sector by 2030" (GRZ, 2011: 141). The specific objective is to "increase the volume of exports in regional and international markets" (GRZ, 2011: 142).

Vision 2030 and the national development plans are, in turn, operationalized through various policies and programmes that the different line ministries, including the Ministry of Commerce Trade and Industry (MCTI), have produced. With regard to trade and industrial development-related policy, these include MCTI's trade and industrial policy statements and the National

Export Strategy. The major programmes are the Private Sector Development Reform Programme, now in its second phase, and the Enhanced Integrated Framework.

Zambia had its first trade policy document in 1994, during the earlier stages of the trade reform programme. The new trade policy was set out in a national policy document (GRZ, 1994). The aim was to pursue an open, export-led trade strategy based on open markets and global competition. Resources were to be directed towards the most productive areas necessary for the highest export potential. The policy focused on tariffs while recognizing the implications for Government revenue, adjustment costs for industry and the policy space necessary to generate development and inclusive growth. The objective was to integrate Zambia into global trade, while increasing and diversifying its production and exports. This meant that trade policy had to be transformative and turn Zambia into a prosperous economy with jobs, incomes and increased trade (GRZ, 2006). The 1994 trade policy document was revised in 2009 (MCTI, 2009). The thrust of the trade policies in the 2009 trade policy document is to build on the 1994 trade policy document within the context of SNDP and Vision 2030.

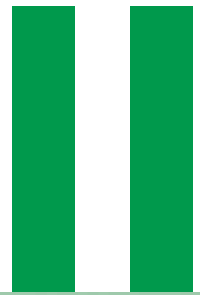
MCTI has also published a draft national trade strategy paper (2013), which builds on SNDP. It focuses on accelerating the development of trade-related infrastructure, accelerating economic growth and diversification, promoting rural investment and accelerating poverty reduction. The strategy is to be implemented over a ten-year period (MCTI, 2013: 11).

One thing is clear from the experience of trade reform in Zambia. It initially focused on tariff reform and import and export formalities, and it was successful in that respect. Afterwards, however, the process seems to have stalled. The Zambian economy is currently not able to spur further real growth away from copper because it cannot harness its potential for increased trade. It is an economy that is regionally and globally uncompetitive, with high production costs in the goods and services sectors, high trade costs and an economy at risk of external shocks because of its dependence on one product, copper.

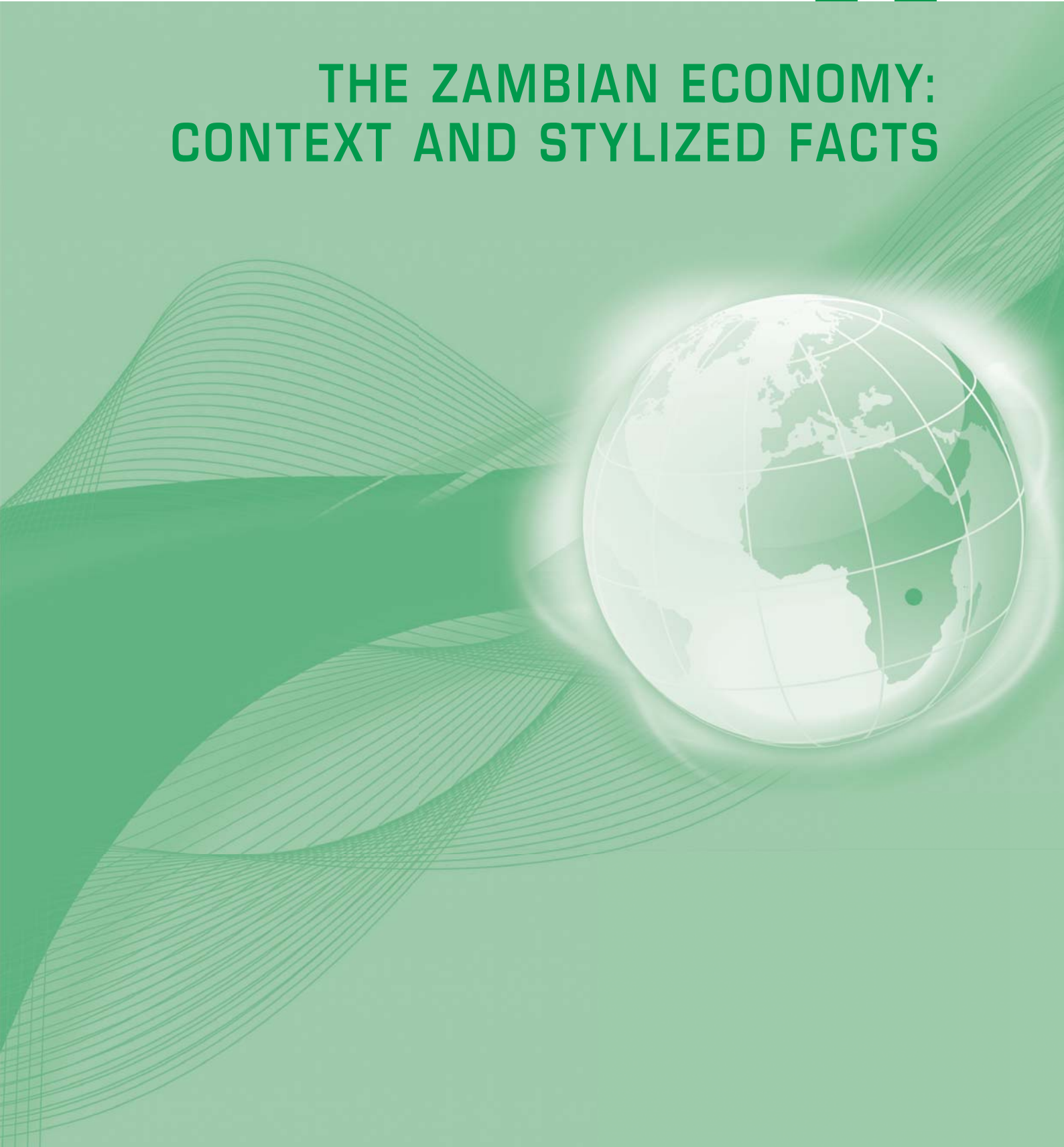
As demonstrated and further argued, the immediate imperative for Zambia's trade policy is to improve international competitiveness and allow the exploitation of regional and global export markets. To help develop

policy and actions to improve competitiveness, MCTI should also use international competitiveness frameworks to benchmark its policies and actions. Besides the national policy documents and papers, MCTI should be able to use the global competitiveness frameworks that have been developed over the past decade. These are the World Economic Forum Global

Competitiveness Index and Enabling Trade Index, the World Bank Doing Business Report and the UNCTAD *World Investment Report*. These can be used as a measure of best practice and benchmark for monitoring and evaluating domestic competitiveness. This can also be supported by value-chain analysis for specific sectors and products of interest (ITC, 2011).



THE ZAMBIAN ECONOMY: CONTEXT AND STYLIZED FACTS



This section provides an empirical review of Zambia's trade and economic performance in the last 19 years (1995–2013). It includes stylized facts about the country's macroeconomic, trade, investment, socioeconomic and development performance. It also provides some detailed descriptive statistical analysis of trends and patterns in domestic production and trade in goods and services overall, as well as by product, sectors and direction. The main purpose of the empirical reviews in this section is to identify the major opportunities and challenges, including that of being landlocked, inherent in the Zambian economy. Particular attention is given to trade in the regional context. The review also identifies possible areas of export diversification for greater value addition.

2.1. Macroeconomic context

The Zambian economy has performed particularly well since 1999, with a steady acceleration of the annual average real GDP growth rates. The growth rate increased from an interval average of 1.6 per cent in the initial interval (1995–1999) of the reference period, to an average of 7.1 per cent in the closing interval (2010–2013) (table 2.1). The far-reaching reforms of the early 1990s started to reap dividends for the economy around 1999. Some international observers (e.g. World Bank, 2013a; IMF, 2014) argue that Zambia is poised for high growth in the near term, underpinned by improved macroeconomic management and an inflation rate that has fallen to modest levels over time – for instance, from 34.8 per

Table 2.1. Selected macroeconomic indicators, 1995–2013

Macroeconomic indicators	1995	1995–1999	2000–2004	2005–2009	2010–2013	2013	Percentage change 1995–2013
Current gross domestic product (GDP) (million dollars) ^a	3 471	3 404	4 077	11 374	20 112	23 562	578.8
Real GDP (million dollars) ^a	4 964	5 314	6 212	8 113	10 876	12 000	142
Real GDP growth (annual average percentage change) ^a	[2.5]	1.6	4.4	6.0	7.1	6.8	9.3
Inflation (annual average percentage change) ^b	34.8	30.9	21.9	12.8	7.0	7.0	[27.8]
Exchange rate (nominal annual average kwacha per dollar) ^c	0.94	1.71	4.36	4.17	5.04	5.38	472
Gross domestic savings (percentage of GDP) ^d	8.9	5.7	14.1	21.9	24.9	25.7	17
Gross fixed capital formation (percentage of GDP) ^a	12.5	13.5	20.6	20.6	24.1	25.3	13
Foreign direct investment inflow (percentage of GDP) ^a	2.8	4.4	6.1	6.8	8.0	7.7	5
Government net lending (+)/ borrowing (-) (percentage of GDP) ^d	12.50%	13.50%	20.60%	20.60%	24.10%	25.30%	13%
Government gross debt (percentage of GDP) ^d	n/a	n/a	[3.9]	2.6	[4.0]	[7.8]	...
Current account balance (percentage of GDP) ^d	n/a	n/a	26.0	25.3	30.4	36.2	...
External debt (percentage of GDP) ^a	[4.2]	[8.8]	[15.1]	[3.7]	1.8	[3.7]	0.5
International reserves (months of import cover) ^c	155	155	141	46	15	n/a	...
Population (million)	1.4	1.06	1.6	2.7	3.3	2.5	1.1
Population (million)	8.8	9.3	10.6	12.1	13.9	14.5	65
Population (million)	8.8	9.3	10.6	12.1	13.9	14.5	65%

Notes: *Macroeconomic indicator external debt: The statistic for the 2010–2013 period represents data from 2010 and 2011 only, as 2012 and 2013 data were not available.*

Abbreviation: n/a, not available.

^a UNCTAD statistics or World Investment Report (WIR).

^b CSO data.

^c BOZ Balance of Payments (BOP) statistical tables and USAID (2012).

^d IMF World Economic Outlook.

A third set of interrelated risks relates to the possible slowdown in domestic business activity, as well as a slowdown in emerging markets and its potential impact on copper prices. These could threaten to erode Zambia's positive growth of the past decade, which was underpinned by strengthening macroeconomic fundamentals and a more favourable business environment than before. Coupled with the above-mentioned fiscal risks, a series of recent macroeconomic and business regulations have raised concerns about policy direction and intentions, with potentially significant implications for the country's focus on private-sector-led competitiveness, job creation and economic diversification. Recent policy direction has been uncertain (ad hoc with multiple reversals) and has lacked a strong focus on short-, medium- and long-term value addition, competitiveness and export diversification strategies. It has also not considered in any significant way key strategies for the integration of Zambian value addition activities into regional and global value chains.

cent in 1995 to 7 per cent in 2013. Other positive macroeconomic outcomes since 1995 have been the marked steady increases in domestic savings and fixed capital formation, as well as foreign direct investment (FDI) inflows and international reserves, albeit to a lesser degree. External debt also declined significantly (table 2.1).

The Government has been resolute about sustaining and stepping up development by scaling up public investment in infrastructure and expanding public social sector and rural development spending. This has been particularly evident in the recent past and can be seen in the marked spikes in Government net borrowing and Government gross debt in 2013 (table 2.1). Indeed, the 2014 budget address of the Minister of Finance in October 2013 acknowledged that “the projected fiscal deficit for 2013 will be 8.5 per cent of GDP, compared to the budget estimate of 4.5 per cent” (MOF 2013: 3). International reserves also took a dip to 2.5 months of import cover in 2013, compared with the average import cover of 3.3 months in 2010–2013. The current account balance in the balance of payments (BOP), which had improved progressively from period to period since 2000, deteriorated sharply in 2013. Moreover, the recent steep depreciation of the kwacha threatens to raise inflationary pressures and create fundamental vulnerabilities in the Zambian economy, especially if the possible slowdown in emerging markets and its impact on copper prices occurs.

Despite emerging macroeconomic risks and constraints, the positive growth of the past years can be sustained over the short- to medium term. To do this, it will be imperative for policymakers to tighten fiscal policy and begin to arrest the mounting fiscal deficit, keeping it at sustainable levels. In addition, key risks to the broader business environment, particularly risks of crowding out the private sector through increased Government borrowing (including service provider payment arrears), should also be addressed, in part through a conservative fiscal policy position.

2.2. Socioeconomic context

In principle, trade competitiveness and development have significant potential for accelerating economic development and poverty reduction in many developing countries. They offer a wide range of benefits, including higher incomes, greater specialization and productivity, resultant higher incomes and wider consumer choices for goods and services, better quality services and higher possibilities of greater economies of scale, all of which are key building blocks that contribute to sustainable development.

Ideally, the impact of trade performance should be reflected in key social indicators. For the Zambian case, the performance of these socioeconomic indicators between 1995 and 2013 is shown in table 2.2.

Table 2.2 indicates that from 1995 to 2013, per capita incomes in GDP terms steadily increased

Table 2.2. Selected socioeconomic indicators, 1995–2013

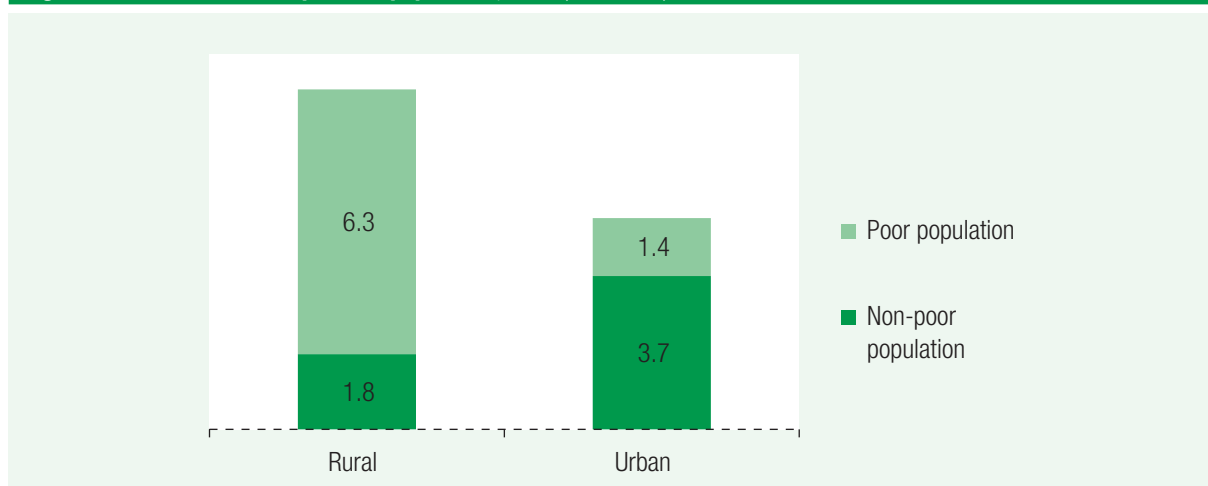
	1995	1996	2000	2006	2010	2012	2013	Percentage change 1995–2013
GDP per capita (current dollars)	359	370	355	909	1 225	1 526	1 620	351.3
gross national income (GNI) per capita, Atlas method (current dollars)	350	370	310	620	1 080	1 410	1 480	322.9
Poverty (persons below poverty line, percentage of total population)	83	69.2	n/a	62.8	60.5	n/a	n/a	[27.1] ^a
Human development index (HDI)	0.424	0.43	0.41	0.480	0.438	0.448	0.561	... ^b
Under-five mortality rate (deaths per 1,000 people)	190.7	197	168	n/a	137.6	n/a	n/a	[27.8] ^a
Casualization (of labour)	12.9	12.4	10.1	n/a	n/a	n/a	n/a	...
Life expectancy at birth (years)	48.2	48.8	50.0	48.6	37	43	51	5.7

Sources: Central Statistical Office, UNCTAD, World Development Indicators.

Abbreviation: n/a, not available.

^a Percentage change calculated for 1995 to 2010.

^b Not calculated, given changes in HDI methodology over time.

Figure 2.1. Poor and non-poor subpopulation, 2010 (In millions)

Source: Based on CSO and UNCTAD data.

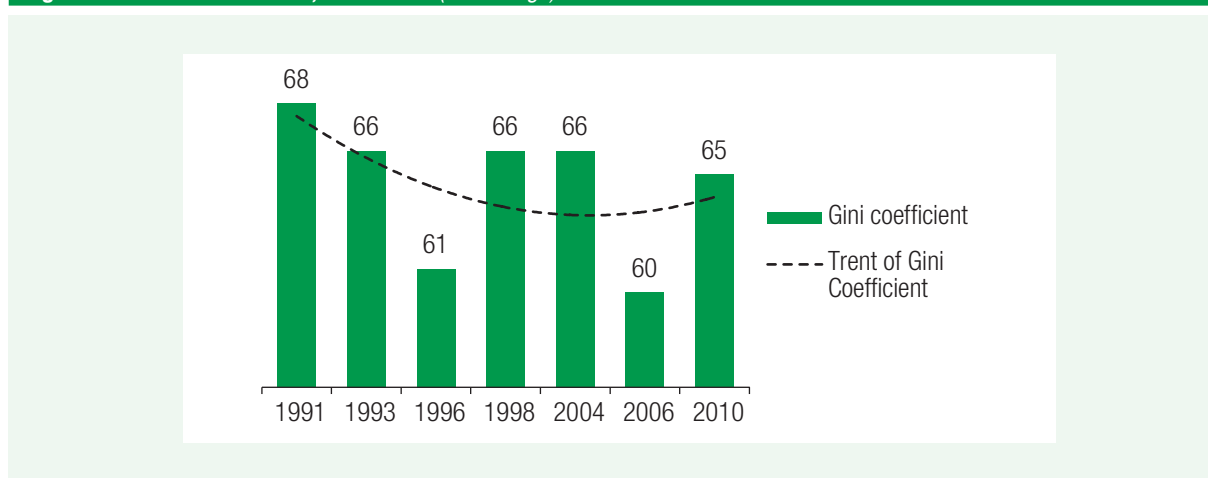
from \$359 in 1995 to \$1,620 in 2013, with the greatest increase being between 2004 and 2006. Based on the World Bank Atlas method, which defines middle-income economies as those with a per capita gross national income (GNI) of more than \$1,045 but less than \$12,746, Zambia became a lower-middle-income country in 2010 when the GNI per capita threshold was crossed. Thus, the bare minimum of Vision 2030 was achieved 20 years earlier than envisaged.

The past 20 years have seen moderate improvements in the levels and depth of poverty. The proportion of people living below the poverty line declined by 6.7 per cent from 69.2 per cent in 1996 to 60.5 per cent in 2010 (the 1995 poverty estimate and the percentage

change in poverty between 1995 to 2010 presented in table 2.2 should be viewed with caution because the 1995 estimate appears to be an outlier). Extreme poverty has also been declining, from 58 per cent in 1991 to 42.3 per cent in 2010.

However, Zambia is still a long way from reaching the Millennium Development Goal of eradicating extreme poverty and hunger by halving, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Similarly, it is unlikely that Zambia will reduce by two thirds, between 1990 and 2015, the under-five mortality rate.

Zambia has one of the highest inequality indexes in sub-Saharan Africa, in part due to the huge gap that exists between rural and urban areas of the country.

Figure 2.2. Gini coefficient, 1991–2010 (Percentage)

Source: Based on CSO (LCMS) data.

Out of an estimated total population of 13.2 million people in 2010, 62 per cent or 8.1 million inhabitants resided in rural areas, and 78 per cent (6.3 million) of these were income poor (figure 2.1). Conversely, out of the 38 per cent (5.1 million) inhabitants in urban areas, only 28 per cent (1.4 million people) were poor.

Much of the gainful economic activity in the country has been concentrated along the railway line, specifically in the highly urbanized Copperbelt and Lusaka provinces as well as, more recently, in selected mining areas in North-Western province. The rest of the country is fairly underdeveloped, and its population is mainly dependent on subsistence agriculture. As such, the high expenditure inequality index of over 60 per cent – as measured by the Gini coefficient (figure 2.2) – comes as no surprise. The gap between the rich and the poor has remained wide, underpinned by the deep rural-urban divide.

Increased casualization of the labour force has also worsened the situation, as it has increasingly become the preferred employment option by most employees. This has contributed to the deterioration of conditions of work and job instability affecting social security and consequently standards of living.

Zambia is currently classified by the United Nations Development Programme (UNDP) as a country with a medium human development index (HDI) value. The 2013 value of 0.561, though an improvement compared with 0.424 in 1995,¹ still positions the country at a relatively low rank of 141 out of 187 countries and territories. This means that the level of human development in Zambia is still low, emphasizing the inequality highlighted above. Thus although the country has shown signs of sustained macroeconomic improvements and stability, coupled with improvements in some socioeconomic dimensions – health, education and particularly general income levels – Zambia is still trailing on inclusive growth and true human development. Economic growth, business improvements and competitiveness of the past decade have not had any significant influence on reducing poverty and inequality.

2.3. Composition of production and trade

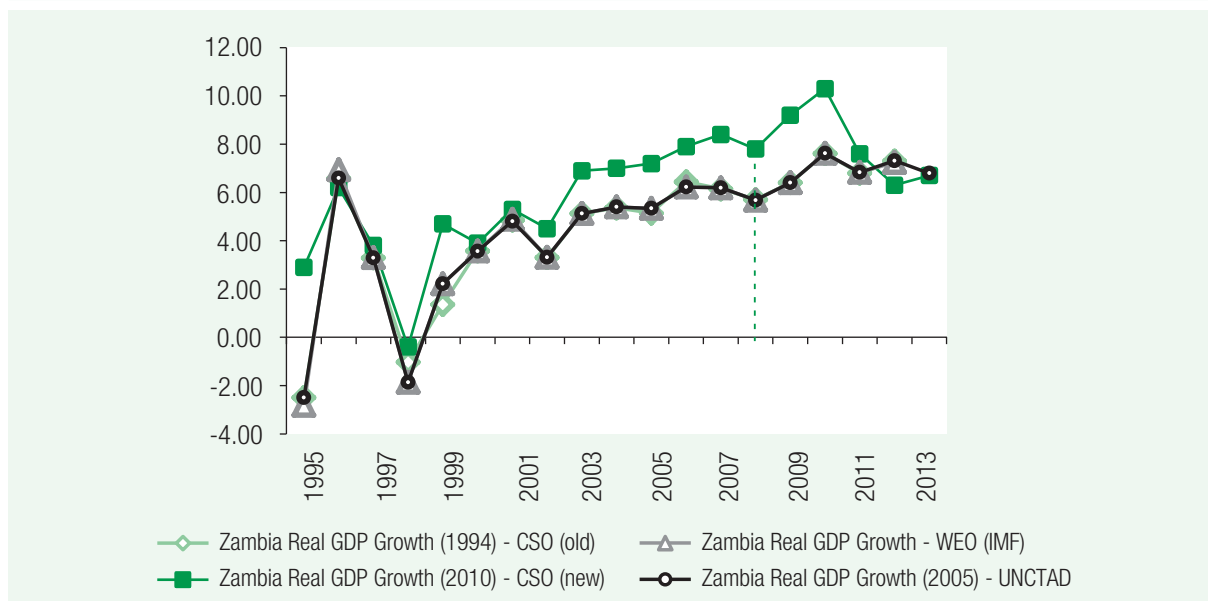
Against the macroeconomic and socioeconomic backdrop highlighted, it is important to understand past and current patterns and magnitudes of

domestic production and international trade in goods and services in more detail. These issues set the stage for later exploration of the business and trade opportunities and challenges facing the Zambian economy.

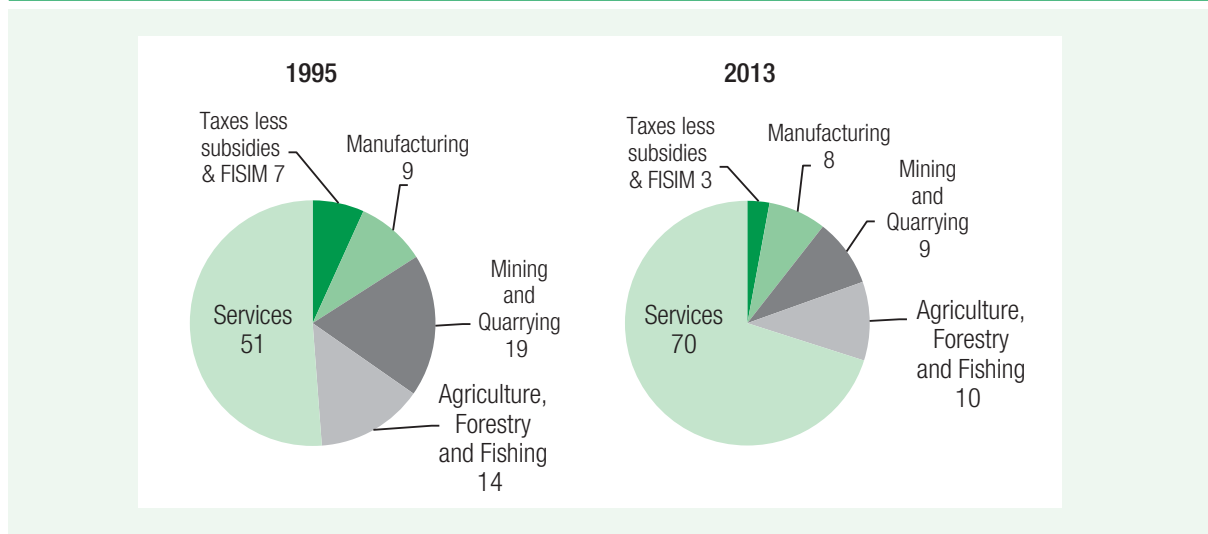
It has already been established that the Zambian economy witnessed sustained robust growth after 1999. Different national and international observers have provided varying estimates of the magnitude of the economy's growth in 1995–2013 (figure 2.3). However, there is a general consensus in relation to four fundamental points: firstly, all estimates are consistent on the magnitudes and direction of the real GDP growth rate in the early part of the 1995–2013 period, particularly in 1996 and 1997; secondly, all estimates capture roughly the same pattern or trend of accelerated growth, particularly between 2000 and 2010; thirdly, all estimates agree that the global economic crisis of 2008 had an obvious temporary adverse effect on the growth rate, although this was not significant; and fourthly, that the real GDP growth rate in 2013 was about 6.7 per cent.

Despite the variations in estimated GDP growth paths over the past 20 years, it is clear that the value added structure of the Zambian economy has seen significant changes. The most significant change was the dramatic expansion of value added services, which increased from 51 per cent of GDP in 1995 to 70 per cent in 2013 (figure 2.4). On the other hand, the share of manufacturing declined marginally, while agriculture declined moderately and mining decreased considerably from 19 per cent of GDP in 1995 to 9 per cent in 2013, despite the massive investments and recovery in the sector from 2004/2005 onwards.

Regarding overall employment, formal employment in establishments and numbers of establishments by industry, data from the Central Statistical Office reveal similar stories, suggesting that Zambia's production is highly dominated in absolute terms by services. Table 2.3 shows that services accounted for the second largest share of overall employment (42.2 per cent) in 2012. Moreover, they accounted for the largest shares of total formal employment in an establishment (67.9 per cent) and of the total number of establishments (91.8 per cent) in 2010. Mining accounted for the smallest shares in both respects. However, mining dominated the average number of formal employees per establishment, while services had the average smallest number.

Figure 2.3. Real GDP growth estimates, based on alternative data sources, 1995-2013 (Percentage)

Source: Based on CSO, IMF and UNCTAD data.

Figure 2.4. Composition of the Zambian economy, 1995 and 2013 (Value added percentage of GDP)

Source: Based on CSO data.

A closer look into stylized facts for each of these main economic sectors provides important insights for trade policy.

Mining

Zambia's copper production, which has essentially been fully export oriented over the entire period of the country's economic history, was generally suppressed after the economic malaise of the mid-1970s set in. The recovery of the industry began from about 2004 to

2005, underpinned by an increased global demand for the commodity, particularly in emerging markets and concurrent increases in world prices (figure 2.5). This saw remarkable investments in the mining sector and over time, the opening up of new mining operations in the North-Western Province. Explorations to find new commercially viable deposits of copper around the country have continued to date.

Copper has continued to dominate the total export profile of the country, at an annual average share

Table 2.3. Establishments and employees by sector in Zambia, 2012 and 2010

	Total employment (2012)		Formal employees in establishments (2010)		Establishments (2010)		Average formal employees per establishment
	Number	Percentage	Number	Percentage	Number	Percentage	
Mining	88 251	1.6	24 443	6.8	74	0.1	330
Agriculture	2 872 331	52.2	41 289	11.5	825	1.2	50
Manufacturing	216 660	3.9	49 091	13.7	4 569	6.8	11
Services	2 322 433	42.2	242 981	67.9	61 324	91.8	4
Total	5 499 675	100	357 804	100	66 792	100	5

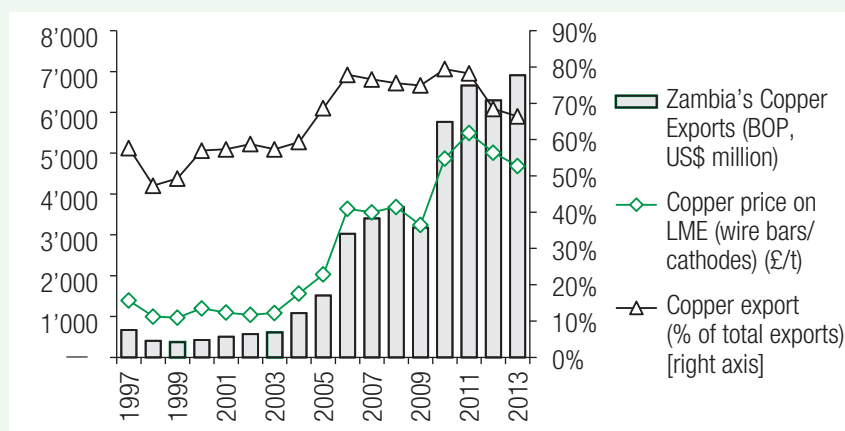
Source: Based on CSO (2012) and Economic Census Phase I data.

of 65 per cent of total exports during 1997–2013. Throughout the reference period, Zambia's copper production and share in total trade were sensitive to international copper prices, an element that is outside the direct influence of the policymakers in Zambia. It is in this respect that the heavy dependence on copper for export earnings presents a particularly precarious situation for the country. A typical case in point is the global economic crisis of 2008–2009. The crisis registered immediately both in terms of a global copper price decline and a dip in Zambia's copper output. World copper prices reached an all-time high in 2011 and have been declining since, with concurrent declines in both production² and export share of copper; this represents a significant degree of vulnerability to external price shocks for Zambia.

The observations about the copper industry's exposure to risks of external shocks and the dependence of the Zambian economy on copper reinforce the point about the need to diversify the economy's export base. While the domestic production structure has become

far less dominated by copper, the export profile is still one that is highly dependent on one product.

The mining industry in Zambia reportedly employs the largest average number of people per capita of firms. Data in the 2010 Economic Census (phase I) show that mining establishments employed on average 330 people per establishment, compared with 5 people per establishment on average across the four sectors considered (table 2.3). However, mining establishments were relatively few in number, at 74 in 2010, compared with 16,698 establishments on average across the sectors. Given the nature of mining, the sizeable investments in terms of exploration and other sunk costs and operating capital that are required to establish mining operations and the existence of viable mineral deposits in the ground limit the total number of mining establishments that can be created. As a consequence, it is unlikely that mining can make a significant contribution to total employment. However, as the statistics show, it does hold promise for job creation in localities where mines get established.

Figure 2.5. Zambia's copper production and world copper prices, 1997-2013

Source: Based on BOZ BOP statistics and UNCTAD price data.

Table 2.4. Agriculture national budget allocations, 2009–2014 (Percentage)

	2009	2010	2011	2012	2013	2014	Percentage change 2009–2014
Farmer Input Support Programme (FSP)	39.7	a	39.4	29.4	26.8	28.7	[11.0]
Strategic food reserves	9.1	a	12.2	17.7	16.1	58.1	49.0
Livestock development	6.4	a	a	a	a	3.0	[3.4]
Capital developments (irrigation, silos)	0.0	a	a	a	a	10.3	10.3
Rest of agriculture forestry and fishing	44.8	100	48.4	52.9	57.1	0.0	[44.8]
Total agriculture forestry and fishing budget (in current million Zambian kwacha)	1 096	1 139	1 232	1 698	1 865	1 745	59.2
Grand total budget (in current million Zambian kwacha)	15 279	16 718	20 537	27 698	32 212	42 682	179.4
Agriculture forestry and fishing budget (percentage of grand total)	7.2	6.8	6.0	6.1	5.8	4.1	[3.1]

Source: Minister of Finance (Budget addresses, 2008–2013).

^a The budget address did not provide the respective breakdown or budgetary suballocations for this field.

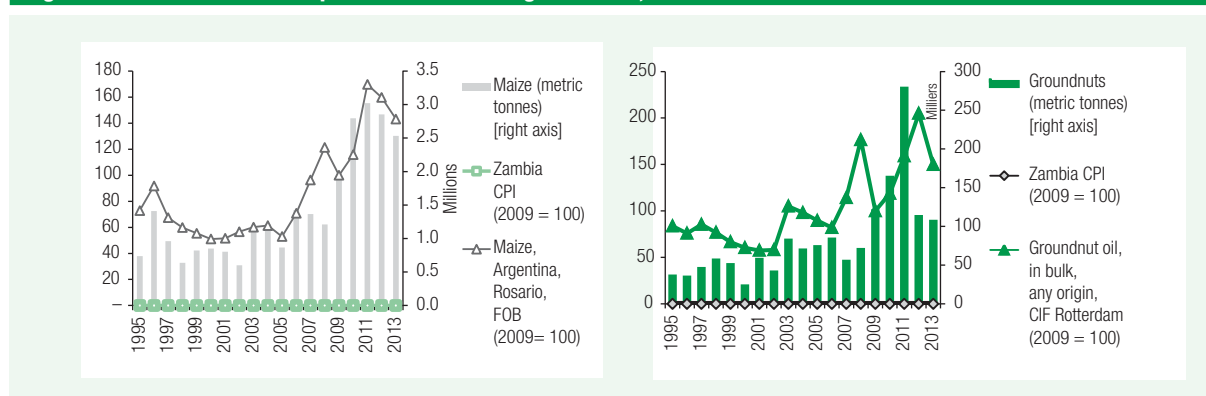
Agriculture

The contribution of agriculture to GDP dropped from 14 per cent in 1995 to 10 per cent in 2013 (figure 2.4), notwithstanding the fact that the agriculture, forestry and fisheries sector holds the highest overall share of total employment, accounting for 52.2 per cent of the total national work force (CSO, 2013). The industry is clearly a mainstay industry for the majority of the population, particularly in rural areas, where agriculture, forestry and fisheries account for 48.2 per cent of total national employment.

The declining contribution of agriculture to GDP is not surprising, however, as in the recent past, the Government has been steadily reducing public sector support for the sector, despite the considerable reliance of rural populations on agriculture for subsistence. Table 2.4 shows that between 2009 and

2014, the budgetary allocation to agriculture, forestry and fisheries declined from 7.2 per cent of the total budget to 4.1 per cent, respectively.

The agriculture sector over the period was dominated by the production of the staple food crop, maize. Indeed, public spending on this crop increased significantly in the 2014 budget, as the Government allocated 58.1 and 28.7, respectively, of the total agriculture, forestry and fishing budget to the Farmer Input Support Programme (FSP) and strategic food reserve. This was presumably a drastic attempt to protect the country's staple food position amidst a declining overall national budget and to arrest the concurrent declining trend in maize production (from 3.02 million metric tons in 2011 to 2.5 million metric tons in 2013 (figure 2.6)).

Figure 2.6. Production and prices of maize and groundnuts, 1995–2013

Source: Ministry of Agriculture and Cooperatives, Agriculture Statistics and Early Warning Section; UNCTAD statistics.

Significant policies and regulatory interventions in the maize market, including Government price setting and legislative export bans, have long distorted maize prices and supply levels. Together with poor rural infrastructure, high transaction cost structures, weak logistics and maize marketing, and low levels of education among the majority of maize producers in the country, the Government's intervention has led to markedly low maize market competitiveness and concomitantly, low maize productivity and other inefficiencies.

A number of other crops have notable growth and export potential. These receive far less support through domestic support measures and public technical support services than maize, but they are showing significant promise. They also witness less direct policy and political intervention than maize. Examples of such cash crops are presented in figures 2.6 and 2.7 below. They include groundnuts, soybeans and wheat.

During the period, the production cycles of major crops appeared, on the whole, to be more significantly influenced by international prices than by domestic prices. This is telling. Perhaps the level of public sector regulation or interference is not as high as one would think, even for maize, given the presence of commercial producers who find ways of avoiding or evading government regulations and can thus export; they therefore take their supply signals from global prices.

Livestock, though marginalized both in the national budget and in the literature on agriculture in Zambia, offers notable potential for growing and diversifying the economy. Livestock contributes about 3.2 to GDP and accounts for about 42 of the agriculture, forestry

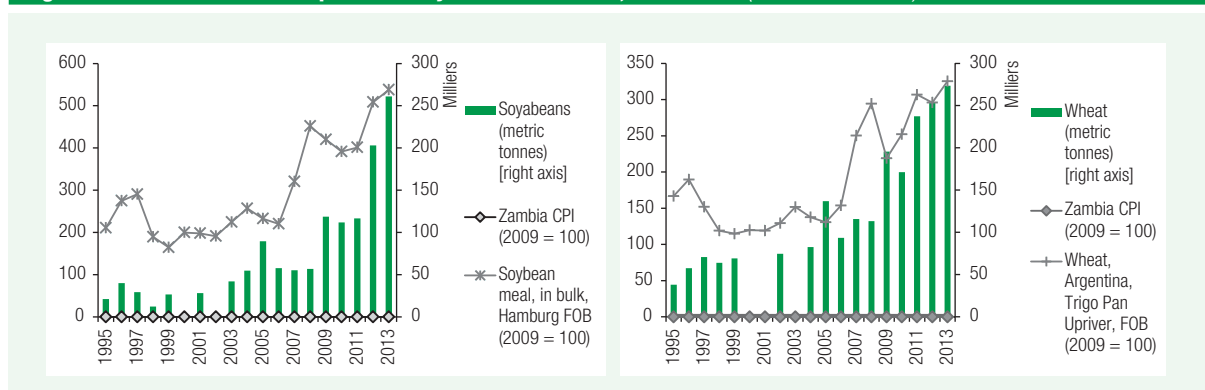
and fishing sector (IAPRI 2013). Livestock constitutes about 20 of smallholder household assets, yet the livestock development budget allocation in the 2014 budget was only about 3 of the agriculture budget (table 2.4).

Annual stocks of livestock and poultry have increased markedly over the last 15 years or so, with stocks of cattle leading the livestock profile (table 2.5). However, on a per capita basis, the annual stocks or reserves of livestock and poultry are meagre. For example in 2013, cattle reserves were 2.7 heads per 10 people per year.

The livestock industry, and in particular the cattle subindustry, have far greater potential for leading growth and diversification than the outputs reflected in table 2.5. For instance, Zambia is reported to have the capacity to sustain more than double its current population of cattle (Nathan EME 2013). The country currently has one of the lowest densities of cattle in the region. Its grazing area of 20.3 million hectares (ha) currently supports about 3.9 million cattle. In contrast, Zimbabwe supports 5.4 million cattle on 12.1 million ha and Kenya, with virtually the same amount of grazing land as Zimbabwe, supports 13.5 million cattle. All three of Zambia's agro-ecological zones are suitable for cattle but, currently, cattle are concentrated in just three provinces.

Although the domestic Zambia market for beef is small and underdeveloped, demand for beef and dairy products is likely to grow rapidly as incomes increase. More importantly, the demand for beef and dairy products in regional markets in COMESA and SADC is likely to increase strongly, providing the opportunity to increase outputs. There are opportunities to export more beef and dairy products to most of Zambia's

Figure 2.7. Production and prices of soybeans and wheat, 1995–2013 (Thousand dollars)



Source: Ministry of Agriculture and Cooperatives, Agricultural Statistics and Early Warning Section; UNCTAD statistics.

Table 2.5. Annual stocks and per capita stocks of livestock and poultry, 1998-2013

	1998	1999	2004	2010	2011	2012	2013	Percentage change 1998–2013
Cattle	2 747 176	2 904 880	2 341 970	3 038 000	3 998 478	3 603 452	3 932 269	43.1
Cattle per 10 people	2.8	2.9	2.1	2.3	2.9	2.6	2.7	-3.6
Goats	891 374	953 757	1 002 376	758 501	1 180 100	1 112 503	3 023 585	239.2
Goats per 10 people	0.9	0.9	0.9	0.6	0.9	0.8	2.1	133.3
Pigs	310 845	345 196	286 726	711 701	1 308 192	1 347 437	1 517 492	388.2
Pigs per 10 people	0.3	0.3	0.3	0.5	1.0	1.0	1.0	233.3
Sheep	67 341	72 083	111 156	466 508	566 508	600 835	816 397	1112.3
Sheep per 10 people	0.1	0.1	0.1	0.4	0.4	0.4	0.6	500.0

	2002	2003	2010	2011	2012	2013	Percentage change 2002–2013
Poultry stock	16 000 000	20 000 000	63 000 000	75 928 130	98 587 625	112 791 669	604.9
Human population	10 625 423	10 894 519	13 216 985	13 633 796	14 075 099	14 538 640	36.8
Per capita poultry	1.5	1.8	4.8	5.6	7.0	7.8	420.0

Source: Based on Ministry of Agriculture and Livestock and CSO data.

Note: Annual stock are net of slaughtered livestock or poultry, livestock or poultry lost to diseases and related deaths and livestock or poultry replenishments; stocks are the reserve balances post production and consumption.

neighbouring countries. There are also significant opportunities for value addition and linking to regional value chains in leather and leather products in the sub-Saharan African region.

The livestock industry is faced with the usual environment-wide challenges of policy and regulatory distortions and interventions, business climate weakness, logistical and infrastructure constraints and constraints on access to finance, among others. However, aside from these general challenges, livestock production in Zambia faces specific challenges such as inbreeding, which causes significant cattle production losses, limited animal husbandry technology and poor pasture management leading to poor feeding practices.

To make matters worse, support services and market outlets are at great distances from livestock producers. Table 2.6 shows that the average distance to the nearest agricultural camp or block office is 18.7 km. This is the nearest livestock service, on average. With declining public spending on livestock, the quality and actual availability of services at agricultural camps or block offices comes strongly into question.

The World Bank (2013b) provides an agenda for overcoming the constraints in African agriculture and

for promoting more effective agribusiness and trade. The agenda has useful insights for Zambia. It includes the following:

- Facilitating reliable access to inputs and technologies through inter alia, informed (rationalized, harmonized and research-backed) policies and regulations on seed, fertilizer and chemical supply, as well as training programmers, peer-to-peer learning programmes, and extension services for agricultural labour;
- Building skills and entrepreneurship that support the commercialization of agriculture,

Table 2.6. Distance to livestock services

	Estimated distance (km)	
	Mean	Median
Agro-dealer	31.8	20.0
Livestock service centre	33.3	21.0
Seller of veterinary products	32.9	20.0
Para-vet	28.0	15.0
Agricultural camp/block office	18.7	10.0
Dip tank	22.7	10.0
Market access: Point of sale of livestock/ livestock products to private buyers	28.5	17.0

- improve competitiveness and raise awareness about existing and potential new domestic and intraregional market opportunities;
- (c) Improving financing for agribusiness and trade through innovative ways of managing risks and providing collateral, including the use of movable assets (e.g. animals and farming implements), warehouse receipts, partial credit guarantees and equipment leasing to help improve agribusiness financing and agri-trade credit;
 - (d) Enhancing access to land and security of tenure by instituting appropriate policies and regulations such as decentralized, transparent and participatory processes of land allocation and secure property rights for both communities and investors;
 - (e) Supporting inclusive investments that involve smallholders and local communities in agricultural investment, including contract farming and granting shares in agribusiness companies;
 - (f) Upgrading infrastructure, including through public–private partnerships (PPPs), Regional Economic Community (REC) and international development partners’ infrastructure initiatives, or private special purpose (investment) vehicles (SPVs);
 - (g) Improving the performance of agricultural output markets through strategic interventions that help upgrade processes, improve quality, branding and packaging in value chains, and that build capacity and coordination along the chains to meet increasingly stringent standards.

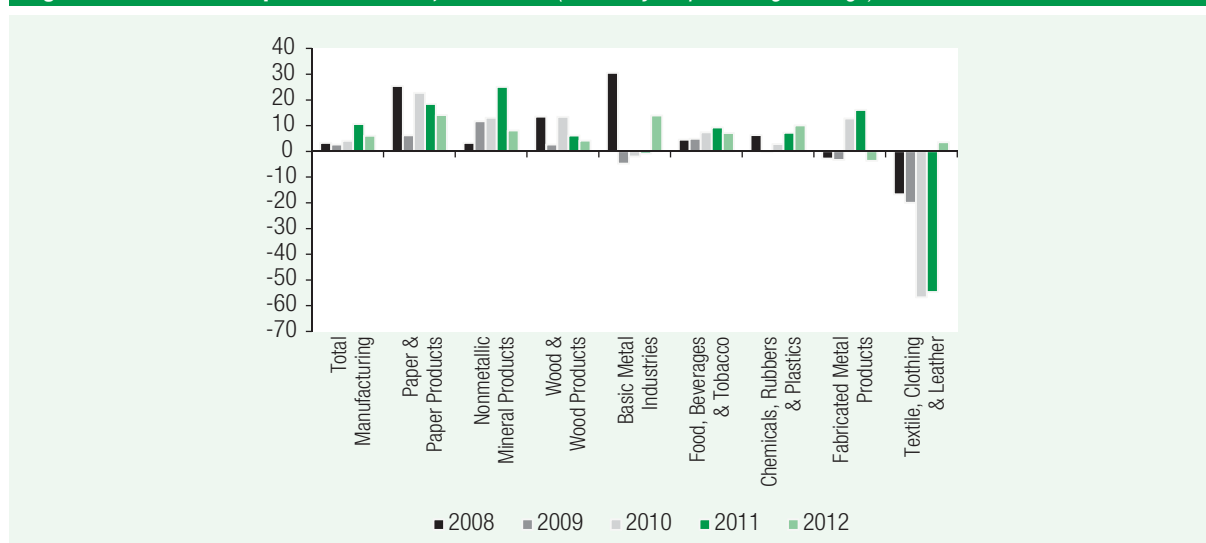
Manufacturing

The contribution of manufacturing to GDP changed little between 1995 and 2013. While for most economies, particularly in developed countries, manufacturing has been the most robust component of trade in goods because of underlying advances in transport, information and communication, financial and energy services, manufacturing in Zambia has been a stagnant domestic value added sector.

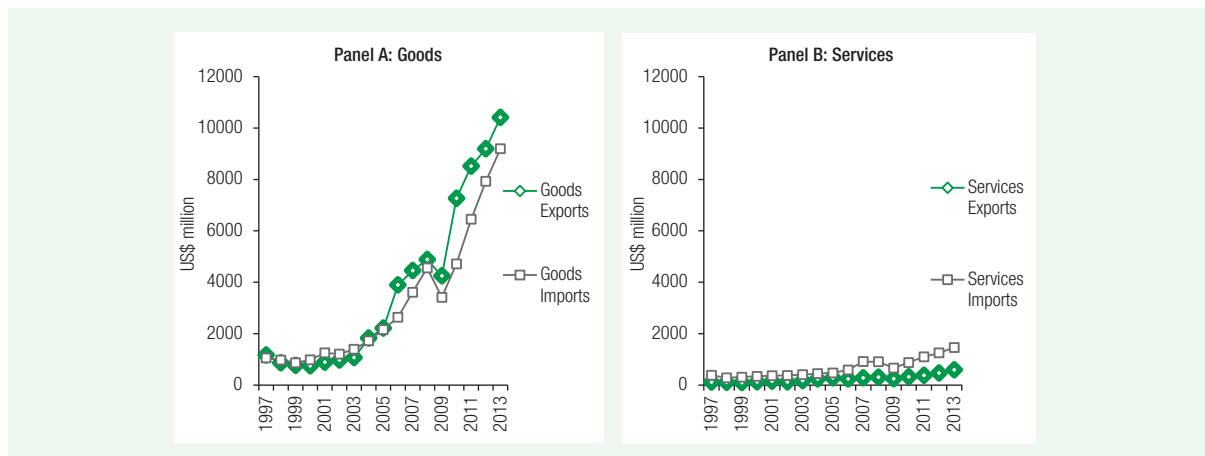
In Zambia, the manufacturing industry has eight main subsectors. These as presented in figure 2.8, which also includes the industrial production index from 2008 to 2012 (as the years for which data were available). The subsector with the most robust year-on-year growth in the industrial production index was paper and paper products. The subsector with the poorest record was textiles, clothing and leather. Reportedly, a key limiting factor on growth in this latter manufacturing subsector has been the lack of investment, the flood of cheap imports from China and second-hand clothing from Europe (Ndulo and Mudenda, 2006).

The manufacturing sector is the sector that is perhaps the most dependent on high quality, affordable and efficient services such as transport, information and communication technologies, energy and finance. It is also highly dependent on the availability of robust infrastructure and public services. In this regard, the lack of competitiveness in the economy, which emanates from the high costs of doing business,

Figure 2.8. Industrial production index, 2008-2012 (Year-on-year percentage change)



Source: Based on CSO data.

Figure 2.9. Merchandise and services trade, 1997–2013 (Million dollars)

Source: BOZ BOP statistics.

onerous regulations and trade restricting practices, has a deep-rooted dampening effect on manufacturing performance. It is therefore not surprising that with all these problems and more, Zambian manufacturing is struggling to incorporate technology and to acquire the higher levels of product sophistication required for export competitiveness.

Trade in goods

The domestic production structures in mining, agriculture and manufacturing largely determine Zambia's magnitude and pattern of trade in merchandise. Overall, the economy's trade profile is dominated by trade in goods (figure 2.9). Thus although domestic services dominate the country's GDP, this has not translated into trade in services. Goods exports overtook imports in 2004, recording a positive trade balance on trade in goods that was sustained for the remainder of the reference period. The positive trade balance coincides with the recovery of the copper industry.

Traditional metal exports consisting mainly of copper exports dominated the overall trade profile over the 1995–2013 period, although non-traditional exports also saw much improved growth (figure 2.10, panel A). Interestingly, relative to a common base period (or indexed starting point at 1997 = 100), non-traditional exports grew more quickly than traditional exports, achieving a rate that overtook that of traditional exports and closed the period at a higher index value level (figure 2.10, panel B). An important qualification regarding the relatively higher level of (indexed) non-traditional exports at the beginning of the review period

in figure 2.10 is that this was mainly the result of the prolonged consequences of the copper price collapse of the 1970s and the concomitant low levels of copper production that ensued (Ndulo and Mudenda, n.d.; Fraser and Lungu, n.d.). Copper production collapsed from a high of 750,000 tons per annum in 1973 to 257,000 tons per annum in 2000 (Fraser and Lungu, n.d.), a dramatic 66 decline in production over the period. The trend only began to reverse in around 2004, albeit from a narrow production base that was comparable to the low base of non-traditional exports.

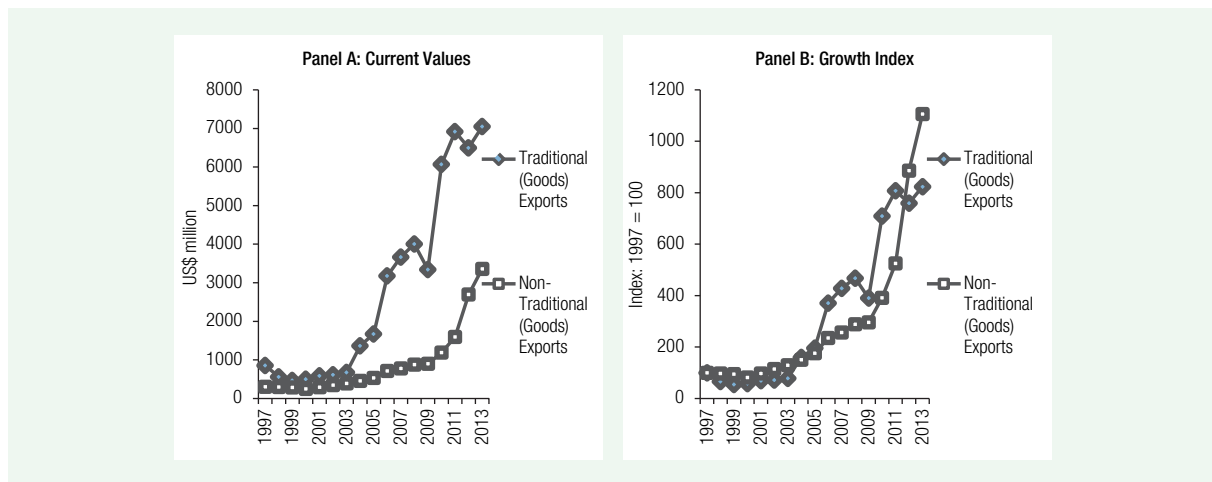
The important lesson here is that Zambia, given the appropriate policy mix and institutions, is able to diversify its export production and increase its non-traditional exports away from copper exports.

There is currently a growing realization among Zambian exporters of the key advantages and opportunities to trading within the region, particularly for a landlocked country with long distances to ports. With this realization, the bulk of non-traditional export earning over the last six years have been from exports to the COMESA and SADC regions (figure 2.11).

Services and growth

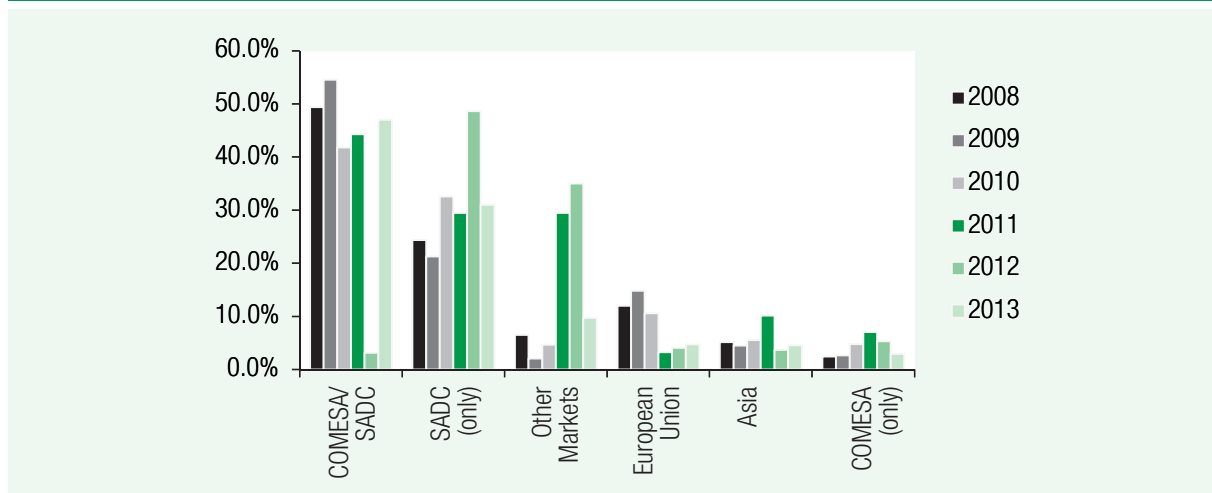
The services sector is very important to the Zambian economy. The sector has grown significantly in the past decade, providing jobs, incomes and major input into the production and export of goods and services. Growth has been propelled by the opening up of the economy and FDI inflows. The contribution of services to GDP increased from 51 in 1995 to 70 in 2013, an indication of the sector's strong presence in the economy.

Figure 2.10. Merchandise exports (traditional versus non-traditional), 1997–2013



Source: BOZ BOP statistics.

Figure 2.11. Non-traditional export earnings by market or regions, 2008–2013 (Current million dollars)



Source: BASED on ZDA export audit tables.

However, not much has been done to remove the constraints that distort incentives in the sector and impede real growth in the economy. Reform in the sector should centre on the rules and regulations that govern the sector and on the capacity of the services sector. An efficient services sector will not only lower the cost of production and trade costs for export but could also lead to increased exports of services. Furthermore, intermediate services are major inputs into production and trade facilitation. The inefficient production of these intermediate services makes Zambian producers regionally and globally uncompetitive.

The importance of an efficient domestic services sector, supported by an effective least-cost

administrative and regulatory framework with the local participation of the private sector in spurring growth and export expansion, is clear when examining intermediate services. These are telecommunications, transport, energy and financial services. These services are a driving force in the economy. Their efficient organization will reduce unit costs and help lower the high cost of production in Zambia. They will also generate both increased merchandise and services exports.

Furthermore, if Zambia is to participate in regional and global value chains, it has to work on the domestic services sector, as these have an important role to play in developing and sustaining regional and global value chains (ADB/OECD/UNDP 2014: 126).

However, Zambian services sectors are inefficiently organized at present. The transport, telecommunications, financial services and energy sectors are unreliable, unproductive, expensive and uncompetitive. Yet services feature in every aspect of production and have a predominant impact on the cost of production. All the major constraints identified by the private sector – unreliable and costly telecommunication services, high cost of finance, high transport costs, erratic electricity supply, multiplicity of council levies and fees (ZNFU 2013) – arise because of the lack of competitiveness, ineffectiveness and inefficiency of the domestic services sector.

Transport

Freight and passenger transport services are a major intermediate input in production and in trade facilitation. This broadly covers road, rail and air transport. The sectors are broadly open to foreign suppliers of services. SNDP focuses on infrastructural development in terms of building and upgrading the road and rail network.

However, transport costs in Zambia are high. They are said to be five times higher than those in industrial country markets (World Bank, 2008: 13) and account for about 60 of the cost of goods (World Bank, 2008: 26). They add up to 40 of the cost of final product (ADB, OECD and UNDP, 2014: 253). They are among the highest in the region. This has nothing to do with being landlocked. For instance, it is estimated that the “cost of exporting a container from Zambia is 25 higher than from Malawi, another landlocked country” (World Bank, 2008: 13). All these high costs are because the sector is open but not effectively regulated. This is especially the case with passenger transport in cities, which is of poor quality, totally unregulated, congested and expensive (Rom Transportation Engineering Ltd, 2013). This ultimately affects the cost of doing business.

Telecommunications

The basic telecommunications sector is dominated by fixed-line services, mobile and Internet services. The fixed-line service is supplied by a State monopoly, ZAMTEL. The other sectors are open and have private participation. The major service providers in the sector are ZAMTEL, Airtel, MTN and several Internet service providers.

Telecommunications infrastructure and a competitive telecommunications sector are strongly associated

with regional and global value chains (ADB, 2014: 174). Furthermore, a strong telecommunications sector will enable value addition and diversification activities to take place, thereby enhancing export and economic growth. However, the telecommunications sector in Zambia is limited, unreliable and expensive. Table 2.7 shows some selected telecommunications performance indicators for Zambia and some comparator countries who are Zambia’s major trading partners in the regional market. The table clearly shows that Zambia’s main competitors, especially Kenya, South Africa and Zimbabwe, have more access to telecommunications and their costs are lower. For example Zambia’s cost in terms of a fixed broadband Internet subscription per month is twice as high as that of South Africa. These are \$82 per month and \$28 per month, respectively.

Financial services

The key sector within financial services is commercial banking. Commercial banking is open and competitive in Zambia. The sector has been relatively open since the reforms of 1985 but was fully liberalized in 1991. There are no restrictions on capital flows. These were abolished in 1994 with the repeal of the Exchange Control Act. There are also no restrictions on the entry of new foreign commercial banks or the number of foreign commercial banks. The only restriction is that of legal form. Foreign commercial banks must be incorporated locally. This level of market access is similar to most SADC member States, with Botswana being the most liberal. Currently, foreign commercial banks are the dominant service providers of commercial banking services. These are ZANACO, Barclays, Standard Chartered, Stanbic, and the Indo-Zambia Bank. The dominant local bank in the market is Finance Bank. There is no regulatory discrimination in the services provided by banks in terms of local and foreign banks.

The sector has continued to grow significantly both in terms of number of banks and in the diversity of its product offerings since 1995. This has been facilitated by increased competition and improved regulatory capacity. However, the sector is still shallow and concentrated (DTIS 2014: 195). Real lending rates are high and the penetration of financial services is low. Only about 21 of the population does business with banks and 23 of the population have access to banking services (DTIS, 2014: 195). Efforts to make the sector more competitive and reduce costs must continue, as financial services are crucial in reducing production and trade costs.

Table 2.7. Telecommunication performance indicators, 2012

Indicator	Democratic Republic of the Congo	Malawi	South Africa	Kenya	Zimbabwe	Zambia
Telephone line ^a	0.09	1.43	7.69	0.58	2.2	0.59
Mobile line ^a	30.58	29.21	130.56	71.17	91.91	74.78
Internet use ^a	1.68	4.35	41.0	32.10	17.09	13.47
Internet cost (dollars) ^b	400	48	28			82

Source: World Bank World Development Indicators.

^a Per 100 people.

^b This is Internet affordability in terms of a fixed broadband Internet subscription per month.

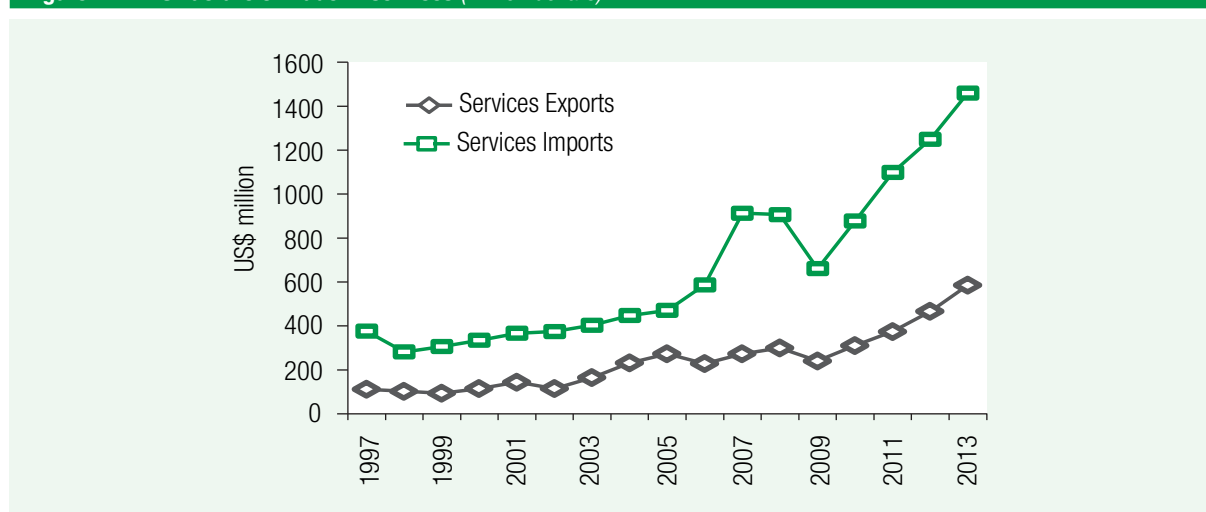
Energy

Zambia has abundant energy resources. The most important energy source is electricity stemming from its significant hydroelectric energy potential. Electricity is currently being generated by three major power stations, namely Kariba Dam North Power Station, Kafue Gorge Power Station and Victoria Falls Power Station. The country has an estimated hydropower capacity of 6,000 MW. Only about 27 (1,640 MW) of the total capacity has been installed (ZESCO), despite the fact that entry into the generation, transmission, distribution and supply of electricity has been liberalized and is free. However, ZESCO still dominates the sector, and there has been little private investment flowing into the sector to increase generating capacity. Furthermore, there has been increased demand for electricity because of recent real growth. There has been a deficit in power, especially since 2007, leading to insecurity and an unreliable power supply, which has disrupted productive activities and adversely

affected production, and tends to push up the cost of production. For example, wheat producers suffer losses because of poor quality and erratic supplies of electricity (ZNFU 2013: 11). The lack of investment in generation and distribution is a major problem. The sector needs to be reorganized to promote investment.

Trade in services

The strong presence of the services sector has not been reflected in the export sector. Zambia has always been a net services importer. Figure 2.12 shows the pattern of trade in services trade between 1995 and 2013. In 2013, Zambia received services export receipts of \$585 million and made services payments of \$1,460 million. Between 1995 and 2003, the deficit on the services account averaged \$397.68 million per year and services imports represented an average of 8.1 of GDP. Service exports have grown, but services imports have grown faster, widening further the services deficit and demonstrating the important role

Figure 2.12. Structure of trade in services (Million dollars)

Source: BOZ BOP statistics.

services imports are playing in the growth process. However, the share of services imports seems to have declined over the period. This averaged 10.3 of GDP between 1995 and 2000 and declined to an average of 6.1 between 2005 and 2013. Exports have not shown any significant growth over the period under review. The share of service exports in GDP has on average been 2.9, a very low contribution, which should be addressed by looking at the constraints that inhibit service sector growth and exports.

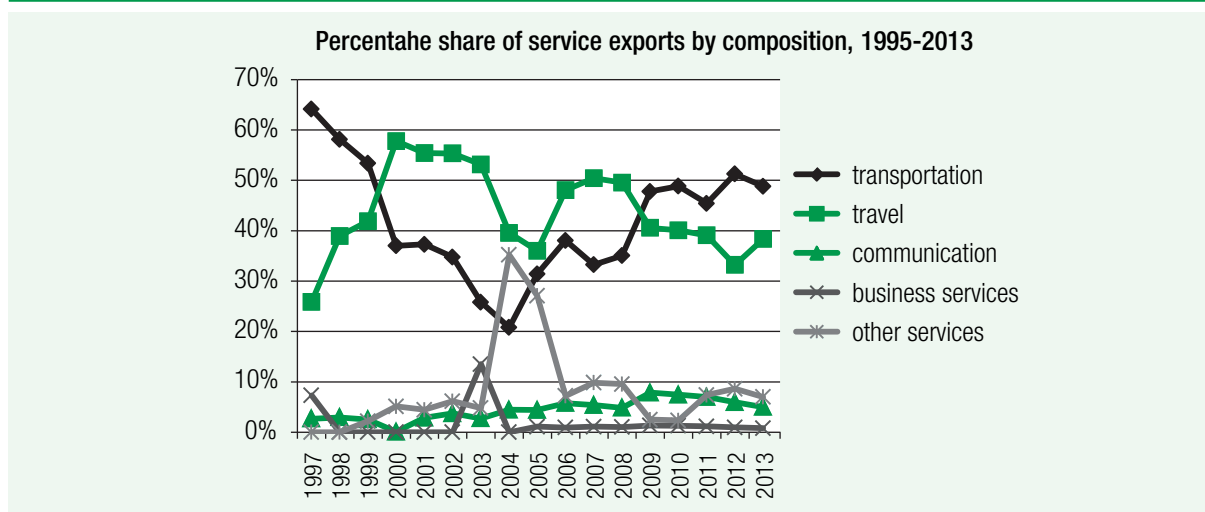
Composition of trade in services

Figure 2.13 shows the composition of trade in services between 1997 and 2013. Both exports and imports

cover a narrow range of sectors. These are transport and travel. Since 2009, export of transport services seems to have become more important than travel services. In 2013, transport and travel contributed 48.8 and 41.8 of total services export earnings, respectively. Together they contributed 90.6 of total service exports. There has also been a growth in the export of business services in the region (DTIS 2014). Professional services such as those of doctors are becoming prominent.

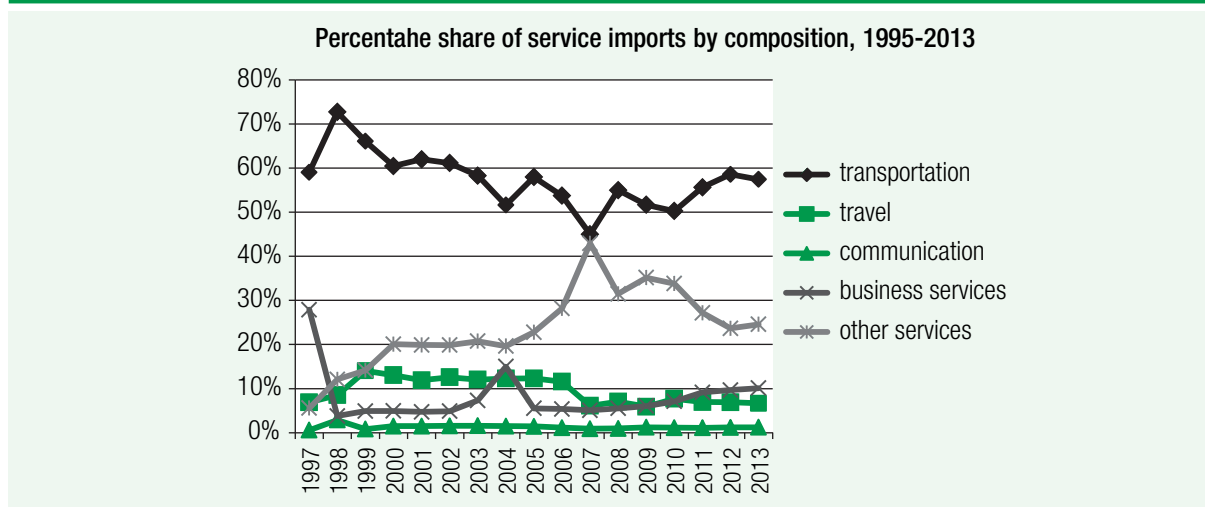
Services imports are dominated by transport, business services and travel. In 2013, transport services imports were at \$834 million, which was 57 of total service imports. Imports of business services were \$148 million, representing 10 of total services imports.

Figure 2.13. Composition of services exports, 1997–2013 (Percentage)



Source: BOZ.

Figure 2.14. Composition of service imports, 1997–2013 (Percentage)



Source: BOZ.

Transport, travel and business services, altogether, represented 74 of total services imports in 2013.

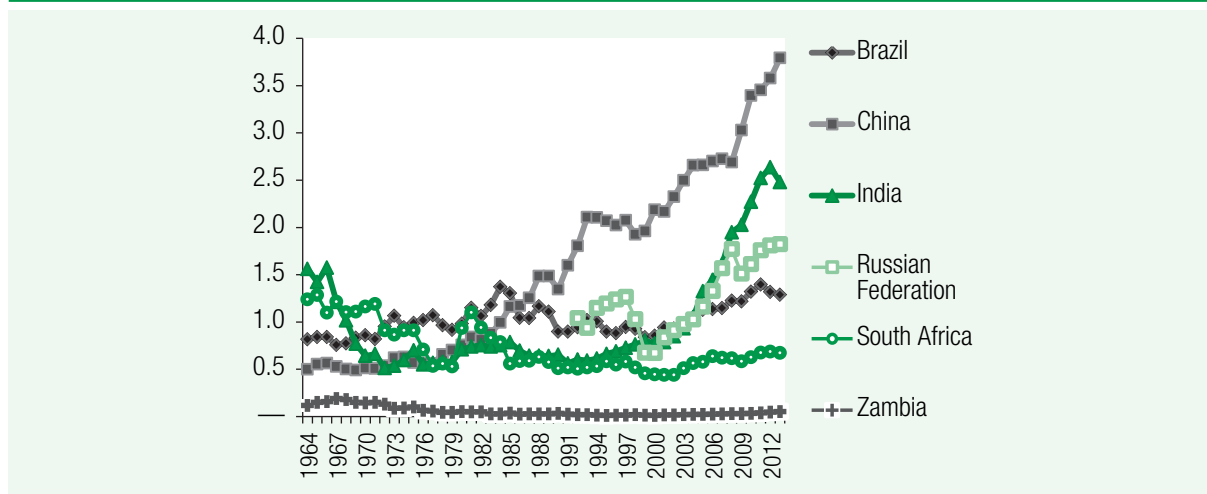
Since the late 1980s, Zambia has tried to diversify its exports away from copper but has been able to do so only marginally. The focus has been on diversification of trade in goods, and now, value addition to agricultural and industrial goods. Given the factors hampering the expansion of trade in Zambia, there is a need to recognize that the major constraint on trade expansion in Zambia is the high production and trade costs that make exports from Zambia uncompetitive. Recognition of this problem will focus trade policy on trade in services. Trade in services can only expand when issues in the domestic services sector are resolved. An expansion of trade in

services will create potential for increased export earnings. Merchandise exports will also increase as a spillover from the increased capacity and efficiency of the domestic services sector, especially those sectors relevant to export production such as telecommunications, energy, financial and transport services.

2.4. Selected trade performance indicators

A look at Zambia’s international trade reveals that since the economic crisis of the 1970s, the economy has never recovered the growing share of world trade it enjoyed in the early years after its independence.

Figure 2.15. Export shares in total world exports, 1964-2012 (Percentage)



Source: Based on UNCTAD data.

Figure 2.16. Average export growth and shares by country or region (Percentage)

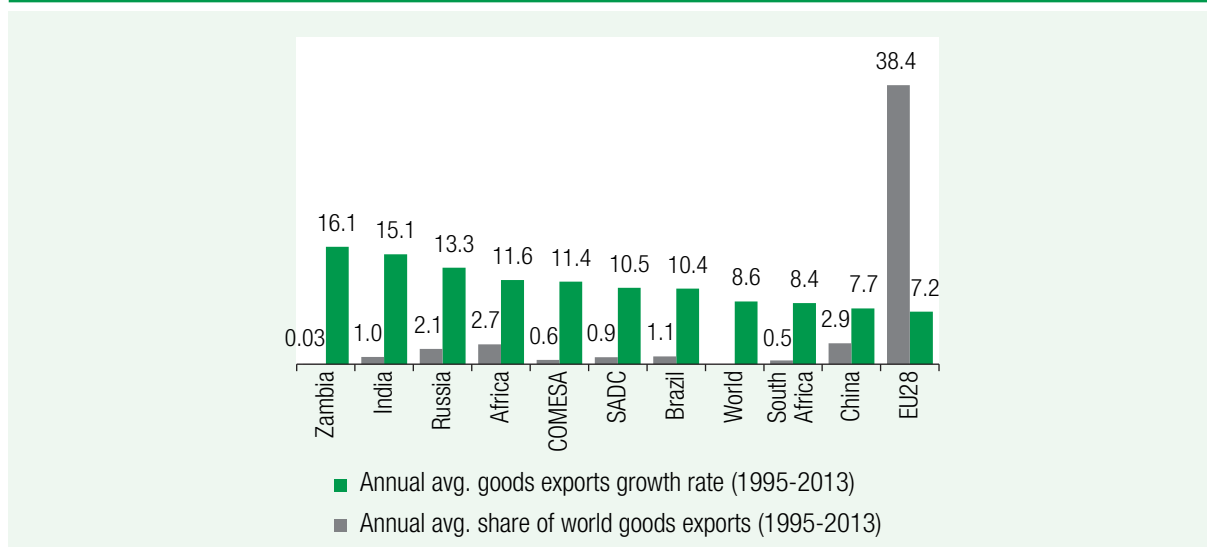
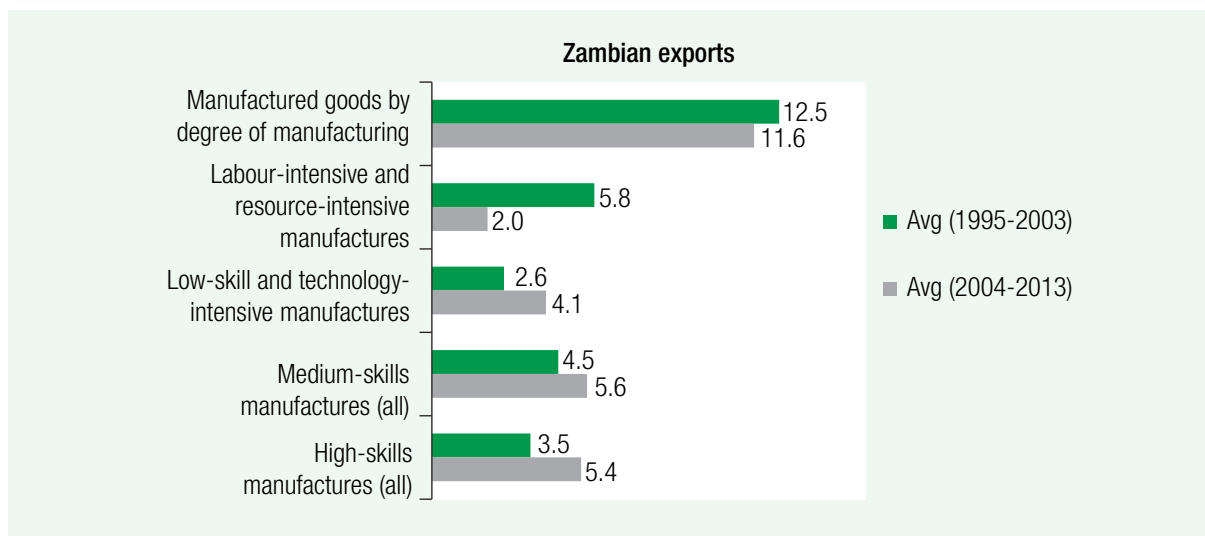


Figure 2.17. Composition of Zambian manufactured exports as a share of total exports (Percentage)

Source: Based on UNCTAD statistics.

As seen in figure 2.15, the BRICS countries have emerged as notable players on the world trade stage, particularly China, India and the Russian Federation, increasing the gap between themselves and Zambia in terms of world export shares.

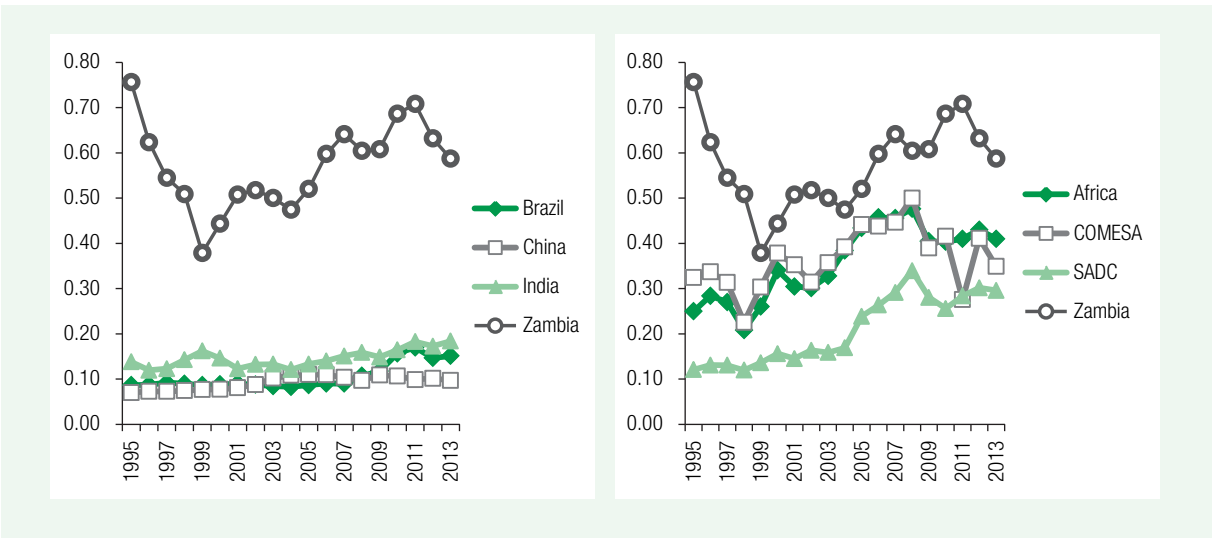
Indeed, while the recent copper-based recovery of Zambian exports in 2004–2005 has resulted in markedly higher nominal exports growth rates for the country (averaging 16.1 per year over 1995–2013), the average annual share of goods exports remained low (figure 2.16).

Despite emerging macroeconomic risks and constraints, the positive growth of the past years can be sustained over the short to medium term. To do this, it will be imperative for policymakers to tighten fiscal policy and begin to arrest the mounting fiscal deficit, keeping it at sustainable levels. In addition, the key risks to the broader business environment, particularly risks of crowding out the private sector through increased government borrowing (including service provider payment arrears), should also be addressed, in part through a conservative fiscal policy position.

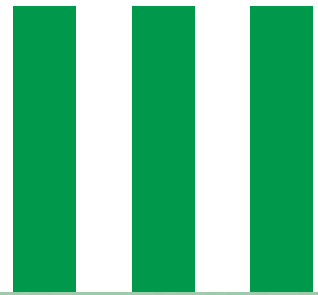
Since the advent of the information and communications technologies age, the world's demand for sophisticated products with high technology and skills content has increased. There is a growing global market for electronic and electrical appliances and gadgets. Meanwhile the demand for traditional manufacturing is also growing again, particularly in the post-global crisis recovery period. Zambia has not significantly responded to these opportunities, judging from the country's composition of manufactured exports (figure 2.17).

The country's exports are highly concentrated among relatively few exporters. The concentration index, or Herfindahl-Hirschman index, which measures the degree of market concentration (with an index value closer to 1 indicating higher market concentration), shows a highly unequal or concentrated distribution of market shares among few exporters in Zambia. This means there is not a diverse group of exporters or exports in the country, particularly in comparison with the BRICS, but even in comparison with African, COMESA and SADC exports (figure 2.18).

Figure 2.18. Herfindahl-Hirschman index of market concentration, exports, 1995-2013



Source: Based on UNCTAD data.



ZAMBIA'S TRADE POLICY AND RELEVANT INTERNATIONAL POLICY ENVIRONMENT



The overall competitiveness of the Zambian economy is crucial to addressing the constraints and problems that inhibit export growth. These constraints and problems arise in production, in moving goods and services across the border, and in export markets. A trade policy framework must therefore identify and tackle the constraints and problems faced by exporters at every stage of this process of production and distribution of goods and services for export. This section provides a trade policy framework to deal with constraints and policies at the border, behind the border and beyond the border in the export markets.

3.1. At the border

At the outset it is important to note that it is vital for Zambia to integrate both regionally and globally. Given the specificities of the economy, and the resource-based, landlocked and small internal market, it will be necessary to enhance competitiveness and growth, create jobs and incomes, reduce poverty and meaningfully integrate both globally and regionally. As trade policy instruments applicable at border crossings/posts affect the costs of inputs and export costs, these measures are discussed below.

Tariffs

Zambia's tariff rates for its imported goods are low and moderate. They are simple and have a flat structure and are ad valorem. There are four bands of 0, 5, 15 and 25 for raw materials, capital goods, intermediate goods and finished goods. The objective is to have higher tariffs for more processed goods and lower tariffs for primary and intermediate goods with low value addition. More importantly, primary, intermediate and capital goods contribute to the cost of production. These ultimately tend to lower costs and make domestic production competitive. However, these bands were set during a period of structural adjustment. The focus then was tariff liberalization, unconnected to issues of industrialization of the economy. Tariff liberalization did not support sector interests in the industrial sector. This points to the need to develop a strategic tariff policy in the future.

The four bands seem to have stabilized and to have been accepted, as there has been no change in the bands since 1996. Most of the tariff work since then has been to address issues connected to the misclassification of imports and exemptions to tariff duties. Table 3.1 shows the MFN tariff rates for Zambia. These range from 0 to 25. The simple average MFN

Table 3.1. Zambia's MFN and preferential tariffs

Description	Simple averages			Trade-weighted averages		
	MFN	COMESA	SADC	MFN	COMESA	SADC
Live animals	20.7	8.3	3.0	23.2	9.3	8.1
Vegetables	18.1	7.2	3.6	13.2	5.3	7.2
Fats and oils	16.0	6.4	3.4	19.1	7.6	3.7
Food, beverages and tobacco	20.8	8.3	4.3	16.3	6.5	4.5
Mineral products	9.8	3.9	3.4	10.2	4.1	4.6
Chemicals	7.4	2.9	0.8	7.5	3.0	2.6
Plastics	10.1	4.0	1.9	14.1	5.6	2.8
Leather	20.3	8.1	3.8	24.6	9.8	5.0
Wood	23.3	9.3	3.9	24.6	9.8	4.9
Pulp and paper	13.9	5.6	1.9	16.9	6.8	2.2
Textiles and clothing	18.7	7.5	6.0	19.6	7.8	10.3
Footwear	23.1	9.3	14.5	24.3	9.7	22.4
Stone, glass, cement	14.5	5.8	2.4	15.4	6.2	3.0
Jewellery	19.2	7.7	4.9	21.5	8.6	5.0
Base metals	11.5	4.6	1.6	10.7	4.3	1.5
Machinery	10.7	4.3	2.5	10.8	4.3	2.0
Transport equipment	11.7	4.7	5.6	15.8	6.3	12.4
Optics	14.2	5.7	3.4	12.3	4.9	3.3
Arms	22.4	9.0	5.0	23.3	9.3	4.8
Miscellaneous	1.9	0.8	0.0	0.0	0.0	0.0
Works of art	14.3	5.7	2.8	12.8	5.1	3.3

Source: Cadot et al., 2005.

tariff rate is 13.6. The tariff rates are fairly dispersed with a standard deviation of 9.6. The trade weighted average tariff rate is 8.5.

It is increasingly likely that the simple and flat MFN structure will change in the near future. This is because Zambia is seeking to migrate its tariff structure to the COMESA Customs Union Common External Tariff Structure, a requirement to be met by the end of 2014 (MCTI 2014). The COMESA CET defines four tariff bands of 0, 0, 10 and 25, respectively, for raw materials, capital goods, intermediate goods and finished goods (Cheelo, 2012). Alignment with the COMESA CET may work to Zambia's advantage, as it will lower the tariff rates on intermediate and capital goods imports from third countries (i.e. countries outside the Customs Union) by 5. This is likely to be passed through to imported input-based production as lower costs of production, which will improve competitiveness.

Bound tariffs

Zambia has bound its tariffs at WTO at a simple average of 106.5. This is at a much higher rate than the simple average of applied MFN tariffs. The bound rates are more than 600 higher than the applied MFN tariff rates. The binding coverage is 16.8 of all its tariff lines. The agricultural tariff lines are bound at an average of 123.3. These were bound as a result of the Uruguay Round negotiations. Only 4.1 of the industrial tariff lines have been bound. They are bound at an average of 43.5. The maximum bound rate is at 125 for agriculture, and the lowest is at 40. Tables 3.2 and 3.3 shows the bound rates and applied rates.

The bound tariff rates are generally very high. The tariff rates are higher in agricultural products compared with industrial goods. The highest tariff rate is in sugar, where Zambia is likely to have a competitive advantage. Zambia has left the tariffs at that level for purposes of flexibility and policy space as part of a negotiating strategy. It would, however, be easy for Zambia to increase its binding coverage, which is very low.

It is estimated that more than 80 of Zambia's trade is bound by preferential trade arrangements under COMESA and SADC. Furthermore, most of Zambia's trade is regional. This limits the real impact of WTO binding commitments on Zambian trade (MCTI 2005: 5). This means that Zambia can use the binding commitments for negotiation strategies.

Export taxes

Apart from tariffs on imports, the country levies export taxes on some selected export goods. The intention is to use export taxes to discourage the export of specific goods so that producers can add value to them. They can be used to promote value addition in the domestic economy by preventing the export of unprocessed raw materials, such as timber logs, raw hides and unrefined copper. However, for the export tax to meet its objectives, the production and trade costs in the economy must be low, and there must be potential to take advantage of value addition activities. This does not seem to be the case with the export tax on Zambian copper. There seem to be difficulties in adding value to Zambian copper before export.

Duty drawback scheme

In an effort to expand non-traditional exports, Zambia has been implementing a duty drawback scheme since 1988. The aim is to provide incentives for exporters to increase their production and exports by making their products competitive in export markets. This is done by reducing costs by refunding the duty levied on imports of raw materials and intermediate goods used in export production. This tends to create a free trade regime for exporters, thereby reducing the degree of anti-export bias that would otherwise exist

Table 3.2. Average MFN applied and bound tariffs for agricultural products (Percentage)

	Applied	Bound
Fruit and vegetables	23.6	125.0
Coffee, tea, mate, cocoa and preparations	22.9	94.2
Sugars and sugar confectionery	23.8	125.0
Spices, cereal and other food preparations	20.5	125.0
Grains	5.0	100.0
Animal and products thereof	21.3	125.0
Oil seeds, fats and oils and their products	14.8	125.0
Cut flowers, plants, vegetable materials	9.4	125.0
Beverages and spirits	24.0	125.0
Dairy products	22.5	125.0
Tobacco	21.7	125.0
Other agricultural products	12.9	125.0

Source: UNCTAD.

Table 3.3. Average MFN applied and bound tariffs for industrial goods (Percentage)

	Applied duty	Bound duty	Bound duty coverage
Wood, pulp, paper and furniture	17.2	40.0	4.0
Textiles and clothing	18.9	40.0	0.0
Leather, rubber, footwear, travel goods	17.4	43.7	13.0
Metals	10.4	40.0	1.0
Chemicals and photographic supplies	7.7	45.0	1.0
Transport equipment	10.8	40.0	5.0
Non-electrical machinery	8.1	44.8	20.0
Electrical machinery	14.8
Mineral products, precious stones, metals	12.4	35.0	7.0
Manufacturing articles, not specified	17.5
Fish and fish products	22.9
Petroleum	11.4

Source: UNCTAD.

in an economy. A very elaborate and complicated administrative procedure was set up for claiming import duty refunds.

The administrative procedures to implement the duty drawback scheme make the scheme inoperable (Ndulo, 2000: 8). Many exporters do not want to join the scheme because the cost of successfully obtaining an import duty refund is greater than the value of the actual refund. If an application is successful, it takes 8 to 18 months to obtain a refund. The success rate is about 55 of the claims made (Ndulo, 2000: 8).

The common view in the private sector is that the scheme does not work. There have been consistent complaints from the private sector about nearly every aspect of the scheme. The scheme has suffered from three problems. Firstly, the refund of the import duty to exporters is paid with long delays. Secondly, it is time consuming to provide the required documentation when applying for a refund of import duty under the scheme. This increases costs to the exporter and acts as a disincentive to the use of the scheme. Thirdly, the scheme is not well publicized.

In order to support export growth, the operation of the scheme needs to be improved so that it is effective

and attractive to exporters. The real problem might be in the design of the scheme and the demand for skilled administrators. The implementation of the scheme creates a demand for scarce skilled administrators who are drawn from other areas of work.

Export promotion

As part of the overall strategy for trade expansion and diversification, Zambia has to develop several export promotion activities. The Government, State export promotion agencies, such as ZDA, and the private sector must cooperate to develop an effective export promotions strategy. That strategy must identify and actively promote specific products and services for which Zambia has a comparative advantage. These will include transport, professional services, tourism and several processed goods such as fresh vegetables, seeds, tobacco, gemstones, cotton, cotton yarn, leather products, fresh flowers, sugar and oil cakes (MCTI, 2009: 26). One way to do this is to increase the presence of Zambian products and exporters in the regional market. Good export performers could be given access to subsidized credit, and the private sector could be encouraged to establish retail and wholesale outlets in major importing countries in the regional market. This will be the best way of introducing and exporting high quality Zambian goods to the regional market.

To support the initiative and to motivate exporters to introduce their finished products, the Government can provide a subsidy on the rental cost of the retail and wholesale outlets for three years.

Zambia's services commitments at the World Trade Organization

The Zambian services sector is fairly open. However, few sectors are committed at WTO. Entry by foreign service providers is fairly liberal in most sectors. There are very few restrictions inhibiting trade in services. This is a result of Government reforms aimed at inducing growth in the economy. At the end of the Uruguay Round negotiations on trade in services, Zambia opted to commit a few subsectors that were more open than others, and had been opened during the reform process. These are in business services, construction, health and tourism. Doing so reinforced the status quo, i.e. the existing level of liberalization in those subsectors. Table 3.4 shows the distribution of these sectors.

Table 3.4 shows the horizontal commitments that Zambia made at WTO at the end of the Uruguay Round. Under market access, Zambia made commitments

with respect to mode 4. This was left unbound except for measures on the entry and temporary stay of natural persons employed in management and specialized jobs for the implementation of foreign investment. This was also tied to a work permit and job training. Foreign firms are expected to provide training in higher skills for Zambians. Under national treatment, there is a limitation on mode 3. This limits access to finance for foreign controlled companies. These have to seek permission from the Bank of Zambia. The limitation on mode 4 on national treatment is similar to that on market access.

Table 3.5 shows the specific commitments that Zambia made at WTO in four subsectors. These are professional services and other business services, construction and engineering, health-related and social services, and tourism and travel-related services. In all the subsectors, modes 1, 2 and 3 were left open both under market access and national treatment. This means that with respect to both market access and national treatment, the subsectors are fully open to foreign providers of services, and they are guaranteed the same level of treatment as the domestic service providers. Mode 4 was left unbound for both market access and national treatment. The services sectors that Zambia committed were already open under the reform programme in the early 1990s. However, Zambia can commit some key sectors which are

already open for development purposes using GATS articles IV and XIX. These are the growth-inhibiting sectors, telecommunications and financial services.

Non-tariff barriers

Both exported and imported goods face several export and import restrictions at the Zambian border. These range from export and import restrictions arising from considerations of self-sufficiency, the need to protect local industry, implementation of sanitary and phytosanitary measures, different interpretations of the SADC and COMESA rules of origin, lack of implementation of the SADC and COMESA preferential trading rules, and policy inconsistency. Table 3.6 shows non-tariff barriers experienced by importers into the Zambian market.

There are import restrictions on the import of some goods such as cement, sugar and wheat. These are justified in terms of the protection of domestic industry or there is some technical barrier as with sugar. There are bans on exporting some agricultural products such as maize and timber. Most of the time, the banning is done erratically, introducing a high level of inconsistency in the implementation of trade policy. A good example is the banning and unbanning of maize and timber exports. This is done unilaterally by the

Table 3.4. Scheduled horizontal commitments of Zambia at WTO

Sector	Limitations on market access	Limitations on national treatment
All sectors included in this schedule	4) Unbound except for measures on the entry and temporary stay of natural persons employed in management and specialized jobs for implementation of FDI	3) Foreign controlled firm to get BOZ authority for loans and overdrafts to one third of paid up capital. 4) Unbound except for measures on entry and temporary stay of natural persons employed in management and specialized jobs for the implementation of FDI.

Source: MCTI.

Note: Modes of Supply are coded as: 1) Cross-border supply 2) Consumption Abroad 3) Commercial presence 4) Presence of natural persons.

Table 3.5. Scheduled specific commitments of Zambia at WTO

Sectors	Limitations to market access	Limitations to national treatment
Professional services: accountancy; medical and dental services; services provided by midwives, nurses, physiotherapists and paramedical personnel	None	None
Other business services: technical testing and analysis services; services incidental to mining exploration; construction and related engineering services.	None	None
Health-related and social services: hospital services; other human health services	None	None
Tourism and travel-related services.	Unbound except as indicated in the horizontal section	Unbound except as indicated in the horizontal section

Source: MCTI.

Table 3.6. NTBs that affect imports into Zambia from SADC and COMESA

Non-tariff barrier	Products affected by NTB
Quantitative restrictions (quotas)	Sugar, rice and wheat
Import bans	Cement
Customs procedures	Wheat imports from Malawi prevented on grounds of rules of origin; opaque valuation of imports made by small-scale cross-border traders; customs officials do not explain the rules being used to value imports; long delays experienced at borders believed to be means of encouraging small-scale borders to pay bribes; bribery and corruption reported to be rife at ports of entry
Sanitary and phytosanitary measures	Wheat and flour; maize and rice; animal products; milk and dairy products and poultry; genetically modified cotton and maize seeds
Roadblock	Unscheduled customs check points on main roads; sometimes merchandise already valued and paid for is re-valued and has to be paid for afresh; other roadblocks mounted by other Government agencies, notably immigration and police; roadblocks cause undue delays and "unofficial payments".
Technical barriers to trade	Flour imports from the United Republic of Tanzania obstructed on account of containing a "preservative" that is banned in Zambia.

Source: Imani Development, 2007: 23.

Table 3.7. Ease of doing business indicators: Trading across borders

DB Year	Documents to export (number)	Time to export (days)	Cost to export (dollars per container)	Documents to import (number)	Time to import (days)	Cost to import (dollars per container)
DB2009	7	53	2 664	9	59	3 335
DB2010	7	53	2 664	9	59	3 335
DB2011	7	44	2 664	8	51	3 315
DB2012	7	44	2 678	8	51	3 315
DB2013	7	44	2 765	8	51	3 560
DB2014	7	44	2 765	8	49	3 560
Percentage change (DB2009-DB2014)	0	[17]	4	[11]	[17]	7
COMESA Avg. DB2014	7	30	1 911	8	35	2 428

Source: World Bank, *Ease of Doing Business Reports 2009–2014*.

Table 3.8. Global Competitiveness Report: Goods market efficiency indicators – Zambia

Year	Trade tariffs			Burden of customs procedure		
	Value*	Rank	Out of ... economies	Value*	Rank	Out of ... economies
2010–2011	n/a	106	139	n/a	71	139
2011–2012	11	110	142	4.1	68	142
2012–2013	11.1	113	144	4.3	62	144
2013–2014	10.7	121	148	4.3	57	148
2014–2015	10.7	110	144	4.2	59	144

Source: World Economic Forum, *GCRs 2010–2011 to 2014–2015*.

ministries concerned and is not transparent. Trucks are stopped at the border. This becomes disruptive and costly when exporters have already signed contracts. It further undermines the long-term viability of developing long-term structured export markets.

Like other products, agricultural products are not subject to import restrictions. However, they require an import permit. This is for the purposes of implementing phytosanitary measures. However, this is sometimes used to disallow imports. Zambia has implemented phytosanitary measures on wheat and flour, maize,

rice, animal products, milk and dairy products and poultry. Genetically modified cotton and maize seeds are not allowed.

A few empirical illustrations of the country's at-the-border trade efficiency performance are worth presenting. The World Bank's Ease of Doing Business framework and the World Economic Forum's (WEF's) Global Competitiveness Report provide some useful insights. Table 3.7 shows Zambia's performance in trading (exporting and importing) across borders during the period DB2009-DB2014,³ while table 3.8 presents

the goods market efficiency on selected customs-related indicators. Both tables show that it is clear that during the broad review period, Zambia attempted very few reform efforts in relation to trading across borders and easing tariff and customs constraints. The efficiencies of trade facilitation, including customs procedure, have been generally low. Thus, the country is doing poorly at the global level in terms of making its trade competitive.

As such, trade facilitation and the reform of the domestic services sector become major trade policy issues in making the economy competitive and enhancing regional export trade.

Because, Zambia is a developing country, it needs policy space in order to pursue its development objectives. The country can pursue non-tariff measures such as import licences, import bans, quotas and controls in a clear and transparent manner. This will be especially true in cases where they are concerns relating to public health policy, environmental protection, national security and food security. This should be done in a way that is consistent with WTO obligations.

3.2. Behind the border

Zambia's trade reform effort has focused on border policies, particularly tariff reform. However, behind the border trade policies are also important in efforts to expand and diversify export production. Increased participation and integration in regional and global markets depend not only on market access opportunities, but also on the competitiveness of the domestic economy. Behind the border policies will reduce production and trade costs for exports and promote the overall competitiveness of the economy.

Business environment

Growth in an economy will take place when both the private and public sectors operate efficiently. This means creating and maintaining a favourable business climate that sustains a competitive and growing economy behind the border. Growth in export production therefore depends on creating such an environment for the private sector, an environment that encourages investment, both domestic and foreign, risk-taking and innovation. There have been efforts to create such an environment; for example, the Government has

implemented the Private Sector Development Programme to address issues and problems that adversely affect the business environment. However the country is not doing well.

It is important to note that improvement in the business environment will have the greatest impact on micro-, small- and medium-sized enterprises (MSMEs). In Zambia, these represent about 99 of the total number of businesses operating in the country (Mphuka et al., 2014: 4). These businesses are spread across all economic sectors. They are a major source of productivity growth and job creation, and a potential source of regional production networks. They therefore provide a potential source of diversification for the economy into activities with value addition.

Foreign companies and big local companies can work through an inefficient business environment, but MSMEs cannot. Therefore, the most effective way to help MSMEs is to improve the business environment.

Domestic services sector

One of the most important aspects of the Zambian economy which pushes up costs and needs to be addressed, as noted earlier, is the organization of the domestic services sector. The sector is unreliable, inefficient and expensive. Improving the capacity, efficiency and competitiveness of the domestic services sector is urgent for Zambia, especially given the country's situation as a landlocked country with long distances to major ports. The major sectors that need focus here are freight and passenger transport via air, rail, and road, energy, and financial and telecommunication services. Zambia's competitiveness in regional and global markets will depend on how these sectors are re-structured to support growth (UNCTAD 2006: 5).

Tariffs on capital goods and raw materials

The growth process depends on imports of capital goods and selected raw materials that are not available in the country. These help to expand production and lower its cost. Imported capital goods and raw materials must therefore be readily available and cheap. If export diversification and value addition activities are to take place, producers must be able to import capital goods and raw materials cheaply. Currently

the tariff rate for capital goods is between 0 and 5. This could be brought down to zero to reduce costs and encourage investment in export production. This would be consistent with the COMESA Customs Union's Common External Tariff (CET), which, as a trade facilitation instrument, seeks to consolidate all capital goods tariffs at zero across all COMESA countries, including Zambia.

Recently, there has been a surge in the production and export of primary and processed agricultural products such as soybean cake and wheat flour. The production of these products is heavily dependent on imported capital goods such as machinery and other capital equipment. Low costs for capital goods will make such products competitive (ZNFU 2013). Generally, lowering the cost of capital goods will enhance the competitiveness of the agricultural and industrial sectors.

Quality, technical and safety standards

The standards infrastructure in Zambia consists of four bodies: the Zambia Bureau of Standards, the Food and Drug Agency, the Zambia Weights and Measures Agency and the Ministry of Agriculture. These bodies implement technical procedures and regulations (product testing, certification and laboratory accreditation). These procedures are important in assessing conformity to acceptable standards in trade. The standards infrastructure has become more important as the economy has opened up. The important standards for Zambia are those in agricultural, pharmaceutical, chemical, food, beverages and related products. These are of export interest. The standards of infrastructure continue to be driven by State intervention and public sector control (DTIS, 2005: 30). Since they are State funded and face chronic underfunding, there is a conflict in Government objectives between revenue generation and standard-setting and -monitoring. The Government must continue working towards a standards infrastructure that reduces the costs of testing and accreditation, shortens delivery time and assists with improvements in the quality of both local and export products (DTIS, 2005: 30).

Zambia has to strive to adopt international standards. However, since the elaboration of international standards is costly and the country might not have the capacity to carry out such activities, the country can

adopt standards that are being used in its major export markets, such as South Africa. This will save costs and the policy choices will then be of harmonization and mutual recognition.

Access to foreign direct investment

If Zambia is to attain the status of middle-income economy, it has to create conditions to enhance FDI inflows into the country. Increased FDI inflows are particularly needed in the manufacturing, agricultural and services sectors. Lately, FDI inflows into the country have been significant. They have increased from an average of \$164.9 million per year in the period 2001–2004 to an average of \$1 billion in the period 2006–2012. They were estimated to be \$1,811 million in 2013. Most of this FDI flowed into mining activities. So did 54 of FDI inflows in 2012 (UNCTAD, 2014: 2). There is a need to attract FDI inflows to the agricultural, industrial and services sectors to support export diversification and value addition processes. This can take place if costs are reduced and the country is competitive. It will then be possible for both domestic and foreign investors to take advantage of the competitiveness to realize diversification and value addition activities.

Openness to FDI will support the export production of goods and services. Foreign firms will bring capital and efficiencies in management, technical and logistical expertise in such sectors as telecommunications, banking and retail business. FDI will also help build regional and global value chains and help enhance the diversification and value addition processes further.

Competition policy

Trade policy reform alone is not sufficient to create a dynamic and competitive economy. This must be supported by a competition regime that enhances competition. There should be competition in both domestic and external markets. With trade reform, competitors may resort to anticompetitive and unfair trade practices. Competition policies are needed to correct this behaviour and foster economic efficiency. Zambia has since 2004 created a solid competition regime. The laws on competition are in line with international best practices (UNCTAD, 2012: 8). There is a general prohibition on restrictive agreements and on abusing a dominant position. There are, however, issues of notification for horizontal and vertical agreements, criminalization of petty offences, and

capacity-building in enforcement that need to be addressed and enhanced (UNCTAD, 2012: 22).

Export finance

Apart from the incentives that will be created by the country's overall cost of production structure and low trade costs, policymakers need to provide financial facilities to support export activities in the private sector, especially among MSMEs. This includes export facilities such as export credits, export insurance and export guarantee schemes. This would enable firms in the private sector to have easy access to export finance facilities. Policymakers must therefore work with the private sector and multilateral development institutions to facilitate the availability of export finance to the sector.

3.3. Beyond the border

Zambia does not have major market access issues at the multilateral level. Market access at the multilateral level is not a constraint on its export expansion and diversification. Most of its exports go to preferential markets in COMESA, the European Union and SADC countries. The major export is copper. This has the MFN tariff rate set at zero or very low rates in its export markets. Zambia has duty-free non-reciprocal access to the European Union under the Cotonou Agreement, which was scheduled to expire in October 2014. Zambia also has duty-free non-reciprocal access to the European Union market under EBA, and duty free non-reciprocal access to the United States market under AGOA. Furthermore, it has reciprocal duty-free access to the regional markets of COMESA and SADC. The country also has non-reciprocal preferential rates under the GSP in the Japanese and Canadian export markets.

Most of Zambia's trade is within preferential trade areas in the regional markets. It is estimated that more than 80 of Zambia's trade is bound by alternative trade agreements such as COMESA and SADC (MCTI, 2005: 5). This means that Zambia's commitments at the multilateral level will not adversely affect its trade. Market access commitments at this level can be used offensively to attract FDI and capacitate the local economy.

On the other hand, preferential rates are important for the export of products such as horticulture, floriculture, sugar, coffee and cotton to the European Union. These have benefited from the Cotonou Agreement rather than EBA (UNCTAD, 2006: 12).

Zambia might have suffered non-tariff barriers in these markets but the main constraint to increased export earnings are limited volumes in its major export sectors, limited value addition in its export products and lack of export competitiveness because of high costs in the domestic economy (UNCTAD, 2006: 12).

There are, however, potential market access difficulties of which Zambia should be aware when developing a strategic trade policy. These are high tariffs on goods of export interest to developing countries. High tariffs are observed in selected agricultural and industrial goods. This is a problem not found in regional markets or African markets because most tariffs in those markets are preferential or have been substantially reduced under the IMF/WB reform programmes.

There is a bias in protection against exports from developing countries in major markets in the United States of America, the European Union and Japan (ITC, 2011: 110). This is compounded by tariff escalation, as shown in table 3.9 for Zambia's products of possible interest in those markets.

A potential challenge to the diversification and value addition export strategy is tariff escalation in relevant markets, which might make it difficult to develop export-orientated processing industries.

Non-tariff barriers

Zambian exports to the European Union and the regional market have been confronted with several non-tariff barriers. These include technical barriers, SPS requirements and standards, restrictive rules of origin, and complex tariff structures and import requirements. Others are delays at customs due to customs administration procedures, delays at multiple roadblocks put up by different State agents and poor administration of certificates of origins by the Zambia Revenue Authority (Imani Development, 2007: 20). Table 3.10 shows the various non-tariff barriers experienced by Zambian exports to the COMESA and SADC markets. The major products affected are maize, sugar, rice, textiles, beef and leather products. Others are flowers and horticultural products.

Rules of origin

The most important market for Zambia's non-traditional exports is the regional market, which is covered by preferential trading arrangements. Although significant

Table 3.9. MFN tariff escalation in developed countries for products of interest to Zambia

Sector	Stage of processing	United States	European Union	Japan
Textiles, clothing and leather	First	3.8	1.0	10.2
	Semi	9.3	6.7	6.8
	Full	10.1	9.8	12.0
Wood and furniture	First	0.1	0.0	0.0
	Semi	2.1	4.3	4.3
	Full	2.2	2.0	2.0
Non-metallic products	First	1.2	0.0	0.4
	Semi	2.2	2.9	1.5
	Full	5.6	4.0	1.1

Source: MCTI, 2005: 10.

reciprocal tariff liberalization has been achieved under free trade areas, increased trade is being undermined by restrictive rules of origin. Many products where there is potential to increase regional trade are being adversely affected. The situation is worse among SADC countries. Many firms in Zambia prefer to trade under COMESA because of the more restrictive rules of origin under SADC, which “go beyond their function of preventing transshipment of products from third countries to protect existing industries from increased intraregional competition” (Tralac, 2014: 2). There have been similar complaints about the implementation of rules of origin from Zambian exporters (ZNFU 2013). Zambia should as a matter of strategy aim to have the rules of origin under SADC improved. It should aim for more flexible and less restrictive rules of origin that promote increased trade rather than protection.

Trade facilitation

One of the major constraints to increased trade in Zambia is trade facilitation. The whole profile of processing exports and imports to the border, at the border and beyond the border is difficult, time consuming and costly. This inevitably increases trade costs, inhibiting trade further. The constraint is very challenging for Zambia because the country is landlocked and its trade has to travel long distances and in all cases goes through multiple borders.

The cumbersome customs and border procedures and practices result from customs documentation and administrative procedures, immigration procedures, quality inspection procedures, transiting procedures and police roadblocks (Tralac, 2010: 10). The solution to this is to improve trade facilitation through customs reform and inter-agency cooperation at the border. Activities such as establishing one-stop border posts certainly tend to reduce trade costs. Ultimately, Zambia has to take forward the agenda of regional harmonization in customs procedures and trade rules.

Its trade policy is aimed at improving trade facilitation in the transit of goods, customs valuation and clearance of goods. This is very important because of the country's location and because most of its exports are in the regional market. Procedures must be uniform, transparent and uncostly so as to reduce trade cost and make Zambian goods competitive. One measure that the country is implementing is one-stop border posts on Zambian borders. In this respect, the country supports the Bali Accord of December 2013.

Table 3.10. Non-tariff barriers that directly affect Zambian exports to SADC and COMESA, 2007

Non-tariff barriers	Export products affected by non-tariff barriers
Export restrictions	Maize and maize products
Quantitative restrictions	Sugar, rice and textiles
Technical barriers to trade	a) Coffee exports to South Africa are restricted based on the level of Ochratoxin in the coffee b) Export of detergent pastes to Zimbabwe was sometimes prevented due to lack of instructions for users in local languages
Customs procedures	South Africa requires SADC certificates of origin prior to shipment of exports. Disagreement between ZRA and SARS on the implementation of this requirement
Sanitary and phytosanitary regulations	Beef and leather products cannot be exported to South Africa because of poor standards of abattoirs and foot-and-mouth disease believed to be endemic in Zambia
Costly quality assurance	Flowers and horticultural products
Unfavourable business climate	High cost of finance and high interest rates discourage production of export goods. Poor transport infrastructure and lack of storage facilities
Public sector involvement in exports	Exports of maize to countries in the region that experienced deficits were predominately exported by a public sector agency responsible for maintenance of food reserves, the Food Reserve Agency.

Source: Imani Development, 2007: 20.

This is beneficial for Zambia. Many of the proposals in the Trade Facilitation Agreement have a regional dimension. This will ultimately be very beneficial to processes of regional integration.

European Union

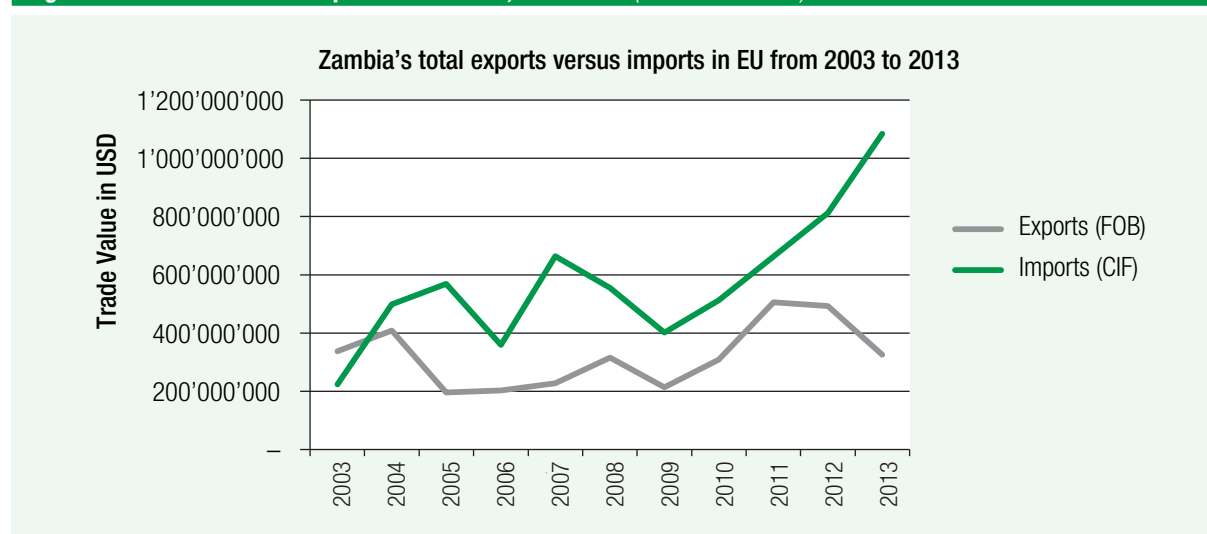
The European Union is one of Zambia's major trading partners in non-copper exports. Its export market is the second largest after the SADC market. In 2013, exports to the European Union stood at \$325.5million. These declined from \$472 million in 2003. In 2013 exports to the European Union stood at 3 of total exports, compared with 63 of total exports in 2003. Thus both the magnitude and share of Zambia's exports to the European Union have been declining since 2003. Figure 3.1 shows the performance of Zambia's trade with the European Union.

However, the European Union is still a major market for non-traditional exports such as cotton, sugar, tobacco, cut flowers, and horticultural and floricultural products. Most of these exports have utilized the preferential market access under Cotonou. However, the rate of utilization of the preferences is low. Zambia utilizes only 37.1 of the available preferences in the European Union market (Brenton and Ikezuki, 2003). This could be mainly as a result of supply-side constraints and NTBs, especially relating to phytosanitary measures, but most importantly, the high trade costs experienced by Zambian producers that make their products uncompetitive even under preferential market access arrangements.

On the other hand, Zambia's imports from the European Union have increased since 2003, to \$1,085 million in 2013, an increase of over seven times the 2003 level. This has implications in terms of the loss of revenue from lower tariffs on imports from the European Union under a free trade agreement with the European Union. In this regard, European Union demands that the ACP countries open up 80 of total imports to European Union products are not in Zambia's development interest. A lower level is needed with a longer liberalization period.

Zambia is a signatory to the Cotonou Agreement between the European Union and the ACP countries. Under the agreement, the parties agreed to negotiate separate sets of economic partnership agreements (EPAs) between the European Union and participating countries organized into six clusters of countries. Zambia is participating in the negotiations under the Southern and Eastern African countries cluster. Zambia has so far agreed to the bilateral interim EPA but has yet to sign, ratify and implement it. If it does not conclude the EPA negotiations, it will not benefit from free access to the European Union market under the EBA scheme. Zambia has, however, not benefited much from the EBA scheme; its trade with the European Union is mostly under the Cotonou Agreement. Even there, however, the utilization rate is low because of supply-side constraints. The country does not export the products that were immediately liberalized under the EBA scheme, and the rules of origin are stringent, and conformity is costly (UNCTAD, 2006: 20).

Figure 3.1. Zambia and European Union Trade, 2003–2013 (Thousand dollars)



Source: CSO.

The main issue facing Zambia is the impact on its revenue, since imports from the European Union are significant. These are estimated at 12 of total imports in 2013. The issue of export restrictions and export taxes might not be an issue. The argument is that export restraints are needed for development needs, especially for encouraging processing of raw materials. Zambia's experience is that export taxes are unlikely to be a binding constraint for export development. It can only be an argument for policy space and revenue. Otherwise, the binding constraint is likely to be the high production and trade costs that local producers face in the economy, which make them uncompetitive in both regional and European Union markets.

The strategic interest for Zambia is to demand increased financial and technical assistance to help it address and resolve supply-side constraints in the production and marketing of export products.

There is also the issue of non-tariff barriers such as phytosanitary measures, rules of origin, TBT and subsidies in accessing the European Union market. Conformity to these measures might be costly. Given the enormity of the supply-side constraints, it would be better for policymakers to focus on dealing with and reducing trade costs so that the country can increase its share of regional trade rather than fighting to share the dwindling European Union market, especially in the new context of no preferential access to the market.

BRICS

The BRICS countries, namely Brazil, the Russian Federation, India, China and South Africa, gradually gathered as an economic grouping over the period 2009–2010. Their objective is to increase economic cooperation among the fastest-growing economies of the world. Since the BRICS countries are characterized by rapid growth and increasing global influence, the area of cooperation also involves market integration. Recently Zambia's trade with the BRICS countries has been increasing, and they are slowly turning into a significant trading partner for Zambia. Furthermore, the BRICS countries have recently been growing rapidly. Zambia should grasp this opportunity and increase its level of economic cooperation, especially in trade, with the BRICS countries. This is in the spirit of enhancing South–South trade. Two of the BRICS countries are already major trading partners: South Africa, which is in a preferential trading arrangement

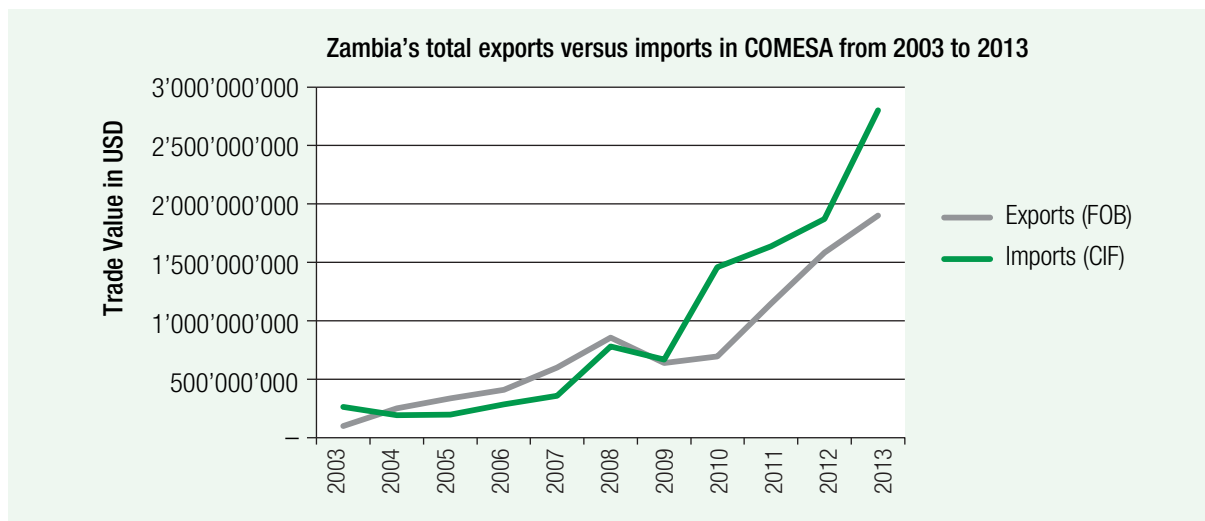
with Zambia under SADC, and China. Figure 3.2 shows the structure of Zambia's trade with the BRICS countries.

The BRICS market has become a very important market for Zambia. In 2013, the BRICS countries accounted for 33 of Zambia's total exports and 48 of its total imports.

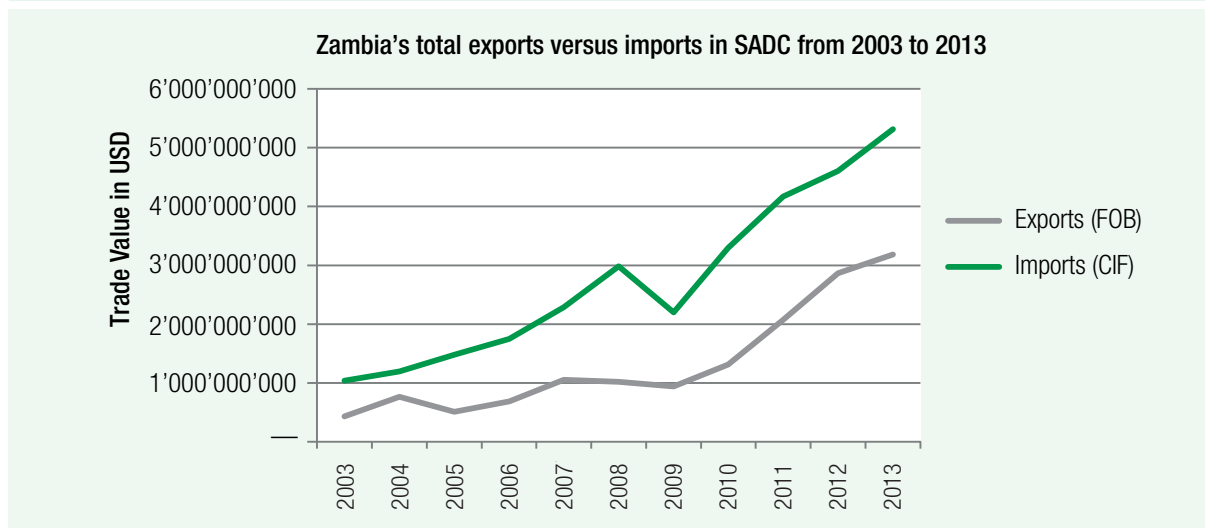
COMESA, SADC and COMESA-EAC-SADC Tripartite

Zambia is a member of COMESA and SADC and therefore enjoys reciprocal duty-free and quota-free access to markets in the two regional economic communities (RECs) as a dual member. Moreover, even for goods that are not eligible for duty-free market access in the regional economic communities because they do not meet rule-of-origin requirements, Zambia enjoys low preferential rates in those communities. Zambia offers simple average and trade-weighted tariff rates of 6.1 and 6.3, respectively, to COMESA countries, and 3.7 and 5.4, respectively, to SADC members, compared with average MFN rates of 15.4 and 16.1, respectively (calculations based on Cadot et al., 2005). This offer is made on the basis that, in accordance with the principle of reciprocity, COMESA and SADC countries offer Zambia preferential treatment.

Figure 3.3 shows the import and export trends between Zambia and the COMESA member States. Zambia imported more products to the COMESA region than it exported from 2000–2003, and the same happened from 2009–2013. In 2013, exports to COMESA stood at \$1,900 billion, an increase from \$82,204 million in 2000. Imports in 2013 stood at \$2,802 billion, compared with \$93,132 million in 2000. The main sources of Zambia's imports under COMESA include the Democratic Republic of the Congo, Kenya and Zimbabwe. Capital goods were the major imports by the country followed by intermediate goods, consumer goods and lastly raw material. The major products imported from the COMESA region are crude petroleum oils, copper ores and concentrates and palm oil. The main exported products include but are not limited to electrical energy, cement, maize seed, sulphuric acid and cement. The major destination countries are the Democratic Republic of the Congo, Kenya, Malawi, Mauritius and Zimbabwe. Zambia has the capacity to produce some of the products being imported from the region, such as copper ores and

Figure 3.2. Zambia and BRICS trade, 2003–2013 (Thousand dollars)

Source: CSO.

Figure 3.3. Zambia total exports and imports to COMESA, 2000–2013 (Thousand dollars)

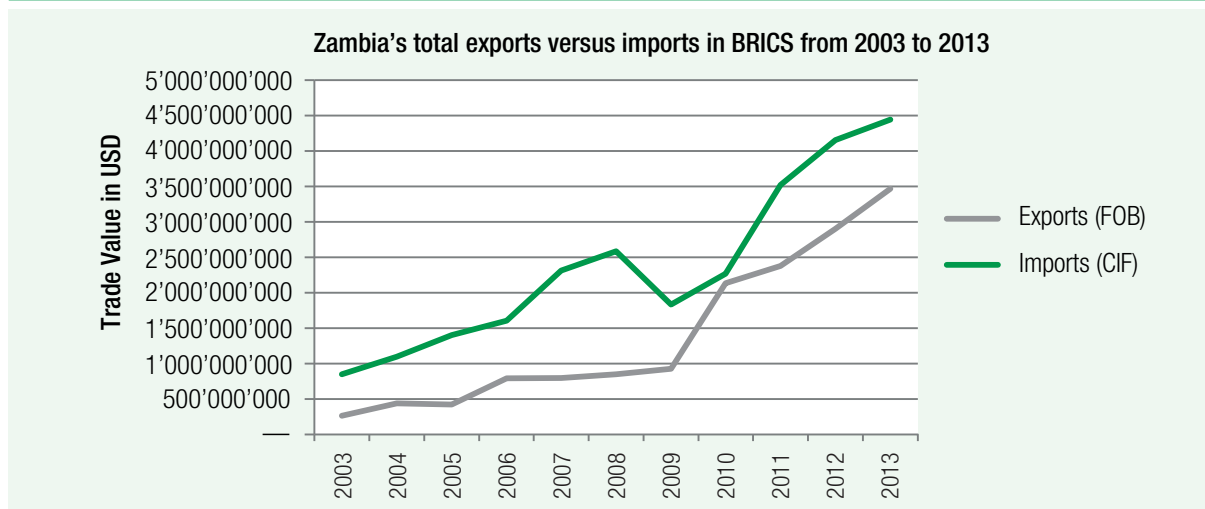
Source: CSO.

palm oil. However, it is beneficial for the country to import copper ores because of the added advantage of value addition and job creation, since the country has enough copper smelters.

Zambia's trade within SADC is dominated by the country's trade with South Africa. The major exports to the SADC region are intermediate goods, followed by consumer goods, capital goods and raw materials. Maize, tobacco, cotton lint, cotton seed, copper wire, copper cathodes and refined copper are some of the products that are exported to countries in the region.

Figure 3.4 shows the structure of Zambia's trade in the SADC region. For the period under review, Zambia experienced negative trade balances, given that the imports from the countries in the region have been higher than exports.

COMESA and SADC, along with the East African Community (EAC), are seeking to establish an integrated market covering 26 countries in Eastern and Southern Africa through the Tripartite Free Trade Area. The 26 countries of the Tripartite region will comprise a total population of over 590,000 inhabitants, or 53 of Africa's total 2013 population. The Tripartite population

Figure 3.4. Zambia total exports and imports to SADC, 2000–2013 (Thousand dollars)

Source: CSO.

is projected to grow to over 878,000 people by 2030. This is a vast market.

A large portion of this market will be accessible to Zambia on a duty-free and quota-free basis, with the added benefits of notable trade facilitation and development cooperation efforts at the technical and policy levels, spurred by the REC secretariats. A simple estimate reveals that 18 out of the 26 Tripartite countries are located in the southern or eastern parts of Africa, covering an estimated 59 of the total Tripartite population. In part due to the country's strategic location at the heart of Southern and Eastern Africa, trade routes between Zambia and most of the remaining 17 countries are either already well established (e.g. with Botswana, Burundi, the Democratic Republic of the Congo, Kenya, Malawi, Mauritius, Mozambique, the United Republic of Tanzania, and Zimbabwe), or established to at least a basic level (Angola, Namibia, Rwanda and Uganda). This means Zambia will have ready access to the bigger part of a population of over 350,000 people.

In addition, in the Tripartite region, nine countries have an important characteristic in common with Zambia: they are landlocked. This means that, like Zambia, these countries will be keen to further their trade with countries within their relative proximity in order to source cheaper imports. That the regions have also significantly harmonized their quality, safety and other standards can only help to enhance intraregional trade.

Notwithstanding Zambia's domestic constraints such as high costs and policy interventions, the country is naturally well positioned within the Tripartite to be a preferred destination for market-seeking FDI. However, the country will have to address domestic constraints if it is to realize the regional trade potentials on offer in the Tripartite. It will have to diligently apply well-thought-out measures that enhance its business climate and regional export competitiveness, including rationalizing the policy and regulatory environment.

3.4 Trade process and negotiations

The Zambian export sector has not grown significantly since the 1980s. The economy is still undiversified. The major export is still copper, which in 2013 contributed about 68 to total exports. They have been some growth in non-traditional exports, but these represent 48 of copper exports and 32 of total exports. Real exports have declined over time. This lack of real export growth and heavy dependence on copper exports pose a risk to the country's efforts to achieve the vision of a middle-income country by 2030 and to generate real growth that would create jobs and incomes and reduce poverty.

The main problem that Zambia has in harnessing its export potential is resolving the lack of competitiveness of the economy. This makes production and trade costs high and prevents the country from taking advantage of both regional and global markets. In this regard, the institutional arrangements put in place

to manage trade formulation and implementation are important. The main issue is the institutional arrangements that have been created to contribute to resolving issues connected to the competitiveness of the domestic economy, and that can contribute to increasing market access opportunities for Zambian services and products.

Currently Zambia has no mechanism to assess, evaluate and monitor the goals and objectives of trade policy and its implementation. This is important to know where the country is going and for trade policy reviews. There is a need to set up effective mechanisms and institutions to evaluate and monitor trade policy.

Trade policy process

MCTI is the key ministry responsible for trade issues. It outlines its mandate as “to effectively and efficiently facilitate and promote sustainable development, growth and competitiveness of the private sector in order to enhance socioeconomic development” (MCTI, 2004: 1). To help it carry out this mandate, MCTI has several implementing agencies under it. These include the Zambia Bureau of Standards, the Zambia Development Agency and the Competition Commission.

MCTI formulates trade policies and makes policy decisions. It has produced documents such as Trade Policy (MCTI, 1994) and the 2009 CTI Policy and National Trade Strategy (MCTI, 2013) to guide its work. Because such decisions affect other ministries, the ministry involves and consults with implementing agencies and other ministries in that process. It also consults with stakeholders in the private sector. The Department of Information and Planning maintains the ministry database and resources and attempts to monitor the ministry's activities. For most of its analytical work the ministry engages local and foreign consultants.

To support the formulation of policies and strategies, MCTI has a national working group on trade (NWGT), which consists of representatives from other Government ministries and stakeholders from the private sector. This is an advisory group. The major ministries participating actively in MCTI work are the Ministry of Agriculture, the Ministry of Justice and the Zambia Revenue Authority. Private sector organizations heavily involved in MCTI work are the Zambia National Farmers Union, the Zambia

Association of Chambers of Commerce and Industry, and the Zambia Association of Manufacturers. For specific trade issues, the NWGT forms subcommittees. These make their recommendations to NWGT. The work of NWGT feeds into the formulation and implementation of trade policies at MCTI.

There are, however, some limitations to the above arrangement. First the arrangement is not institutionalized. The organizations of NWGT send representatives, who change from time to time. This affects the committee's deliberations. The committee does not meet regularly. It is not funded, making the work of the committee voluntary. This is also true of members on the committee from departments other than foreign trade in the ministry. It will be useful to re-examine the organization of this committee in MCTI so that it can be made more effective and support the formulation of trade policies and strategies.

To address trade issues more effectively and comprehensively, there might be a need to re-structure MCTI. The current structure does not promote or give attention to issues in the domestic services sector, leaving that to other ministries that only focus on the regulatory aspects of the domestic services sector. Currently MCTI has five departments. These are the departments of Foreign Trade, Industry, Information and Planning, Commerce and Domestic Trade and Human Resources and Administration. With the understanding that services are an industry just as food and beverages are, the Department of Commerce and Domestic Trade could be merged with the Department of Industry. This would help bring services issues to the core, rationalize the use of resources and make co-ordination more effective.

Private sector participation

Since the late 1990s, MCTI has been striving to increase the participation of the private sector in trade policy formulation processes. This was initially limited to participation in resolving the problems that arose from the implementation of trade policy, but has now been broadened. However, there should be a clearly spelled-out and institutionalized structure that involves private producers and traders in the private sector. This should be used to shape the formulation and implementation of trade policy, with the private sector playing a key role. As has been noted elsewhere from the comparative experience from Asia, “[i]n Asia the

flag follows trade; not the other way around as it does in Africa” (Tralac, 2014: 2).

As suggested elsewhere (UNCTAD, 2006), a possible structure is to have a ministerial committee on trade reporting to cabinet. The committee could consist of the Ministries of Commerce, Trade and Industry, Finance and Agriculture. The committee could be mandated to deal with all multilateral, regional and bilateral issues on trade. NWGT could support this structure.

3.5. Timelines in the Zambian trade reform effort

At independence in 1964, the country inherited a very strong economy concentrated on a single product – copper. This accounted for 94 of export earnings and 40 of GDP. The country was generally one of the most prosperous nations in Africa with its rich endowment of arable land, water and mineral resources; it held great potential for sustainable economic growth. However, the country was characterized by a very narrow manufacturing and agricultural base. Manufacturing contributed only 6 of GDP. Being landlocked was a challenge and discouraged investments into the country because of lack of access to the sea, which made transportation of raw materials as well as importation of inputs needed for manufacturing expensive (World Bank, 1981). Despite these drawbacks, the country experienced rapid economic growth between 1964 and 1975 mainly because of earnings from the copper sector. The real growth rate was far greater than that experienced in earlier periods as well as compared with the growth rates of many other sub-Saharan African countries.

Between 1964 and 1974, the Zambian economy was characterized by a relatively unrestricted trade regime. The State largely maintained the tariff structure inherited from the colonial administration. Tariffs were set very high, varying between zero and 150. The Government used tariffs as the principal instrument of intervention in the foreign trade regime. There were many exemptions and outright bans on certain categories of imports, and a system of import licensing known as the open general import licence system. Nevertheless, trade flow was determined mainly by the level of tariffs. There were also export taxes on mineral exports.

The country was able to sustain a very high rate of real growth until it suffered external shocks in 1974. The external shocks were characterized by a fall in export copper prices and a rise in fuel prices. When copper prices began to decline on the world market, policymakers did not make an effort to adjust national consumption, as the situation was assumed to be a short-term one. The finance gap was thus met by borrowing from both the domestic and international market, shielding public consumption from the effects of the economic decline. Eventually, copper export prices fell over 40. The oil shock of 1973/74 also resulted in a world recession, reducing the demand for copper. With these external shocks, reductions in export revenue and increase of imports costs were inevitable. The external shocks consequently led to a shortage of foreign exchange and a negative current account, and real GDP per capita collapsed.

With no improvement in copper receipts, the lack of serious diversification and the openness of the economy, dependence on one commodity proved to be a weakness since the effects of the shocks were transmitted to all sectors. The country accumulated large arrears on loan repayments, which required policymakers to take action. They then imposed restrictions on trade. Quantitative restrictions on imports were introduced in addition to the existing high tariffs. They used import licences, import bans and foreign exchange controls to regulate the use of scarce foreign exchange as well as to protect domestic industry. By the early 1980s, quantitative restrictions on imports had become so extensive that the structure of protection could not be determined by the tariff schedule alone (World Bank, 1984: 30).

The first major attempt at reform began in 1985 during the first period of trade reforms. This reform was undertaken with the aim of accessing financial resources from multilateral institutions under a structural adjustment programme. One of the World Bank’s conditionalities was for the country to introduce a more rational way of allocating foreign exchange in the form of an auction system (Ndulo, 1990: 11). Tariff reforms were a complementary package to support the auction system. Import licences were made freely available, and protection was to be provided only through tariffs. The maximum nominal tariff rate was reduced to 100, and many zero tariff rates were increased to 10 and then 15 in order to rationalize the tariff structure. Most of the quantitative restrictions on imports were removed.

Table 3.11. Main trade-related reform measures, 1991–2009

Year	Policies
1991	Nominal tariff levels reduced to a range of 0 to 50
1993	Nominal tariff levels reduced to a range of 0 to 40
1994	All controls on current and capital accounts abolished
1995	Import sales tax changed to import VAT
1996	Nominal tariff levels reduced to a range of 0–25. SADC Trade Protocol signed
2000	COMESA FTA signed, with zero duty for trade among the nine members. SADC tariff reduction phase begins, with the objective of establishing a SADC FTA by 2012. AGOA Agreement signed
2001	European Union's EBA established, offering duty-free access to LDCs' exports, except for armaments and three sensitive products.
2003	Zambia Export Processing Zone Authority established.
2006	Multi-facility economic zones launched
2009	COMESA Customs Union

However, this reform process ended in 1987 when the adjustment costs became unbearable and led to social protests and unrest.

The reform process was then reversed between 1987 and 1989. However, there was no adjustment to the previous high levels of tariffs. The country embarked on what it called a “growth from own resources” programme. The programme later became unsustainable, and Zambia had to revert to the IMF/World Bank-supported programme. Under the IMF/World Bank programme, there were no major changes to tariffs. Import licences were reintroduced, but these were automatic, based on qualifying for allocation of foreign exchange and on the use of own funds.

The implementation of the second period of trade reforms begun in 1991 and involved a second wave of tariff reform. The process began in 1989 with the New Economic Recovery Programme supported by IMF and World Bank. With this programme, the maximum nominal tariff rate was reduced to 50 in 1991. In the 1993 budget, nominal tariff rates were reduced further and rationalized to 0, 20, 30 and 40. Another major tariff reform was carried out in 1996 when the nominal tariff rates were reduced to percentages of 0, 5, 15 and 25.

Generally, the trade regime has been fully liberalized since 1991, involving a reduction and rationalization of the level of nominal tariffs and the removal of all impediments to trade. Nominal tariffs on imports have been lowered, and import licensing has been dismantled, except for sanitary and phytosanitary

(SPS) purposes and for conformity with the United Nations Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Import controls are maintained only for environmental, moral, health and security reasons. All quantitative restrictions on imports have been abolished, and many exemptions eliminated. Import customs valuation has been changed from a free-on-board (f.o.b.) basis to one of cost, insurance and freight (c.i.f.).

In order to further rationalize the tariff system, the tariff bands were reduced to four bands, and their current levels are 0, 5, 15 and 25; any tariff changes and classifications are carried out within these bands. Specific rates have been changed to ad valorem duties. Domestic and import sales tax rates were unified, and subsequently, a value added tax replaced the sales tax. The current value added tax is prescribed at a standard rate of 16.

Export restrictions on exports have also been removed on most products, except for a few items such as forestry products and copper concentrates. Export documentation is maintained only for statistical purposes. This reform has basically been supported by the creation of institutions to promote exports such as the Export Board of Zambia and the Zambia Export Processing Zones Authority, which since 2006 have been amalgamated with three other institutions to form the Zambia Development Agency.

Currently, Zambia is pursuing a liberal trade policy and has continued to work towards a wider integration agenda by participating actively in multilateral, bilateral

and regional trading systems and negotiations as well as the Tripartite Framework. The country is a member of WTO and enjoys preferential market access to several markets such as the United States under the African Growth and Opportunity Act (AGOA), the European Union under the Everything But Arms initiative and several industrialized countries under the Generalized System of Preferences (GSP). With regard

to regional trade, Zambia is a member of the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). It is a signatory to both the COMESA Free Trade Agreement as well as the SADC Trade Protocol. An interim Economic Partnership Agreement with the European Union was also signed, replacing the trade component of the Cotonou Agreement.

IV

OPTIONS FOR ENHANCING ZAMBIA'S TRADE POLICIES AND STRATEGIES



The major trade policy issue in Zambia is that the country has failed to diversify its economy and increase its exports. This can be seen in the lack of significant development of its export sector. This is expressed by most policymakers as a lack of diversification and limited value addition of its goods and services. This is despite the major tariff reform effort in the late 1990s. The real issue is the uncompetitiveness of the Zambian economy. This has led to high production and trade costs which prevent Zambian producers from taking advantage of the opportunities for trade in both regional and global markets. Because of the uncompetitiveness of the economy, there are few FDI inflows to take advantage of the diversification and value addition opportunities in the country. The country will therefore need a forceful export strategy that will spur export development and sustainable economic growth. To achieve this, there is a need to address factors that impede competitiveness at the border, behind the border and beyond the border in trade policy and strategies.

4.1. Addressing issues at the border

MFN applied and bound tariffs

Zambia's applied MFN tariffs rates range between zero and 25. They are higher for agricultural products than industrial goods. Zambia has also bound 16.8 of all tariff lines at WTO. All tariff lines in agriculture have been bound, and there are less than 5 tariff lines for industrial goods. These are usually more than six times higher than the applied rates. In order to maintain flexibility and policy space, there is no urgent need for Zambia to reduce its applied MFN tariff rates and increase the binding coverage. In any case, as pointed out, most of Zambia's trade is carried out in the region under preferential rates.

In tariff policy, Zambia should pursue a strategic trade policy. The tariff levels can then be decided on a sector-by-sector basis and support the country's overall industrialization strategy. To implement this, the Government should set up a tariff commission, whose responsibility will be to set tariffs and implement trade remedies.

WTO services commitments

Zambia has bound a few service sectors at WTO. Among these are business services, health services,

and construction and tourist services. These were the sectors that were very open at the end of the Uruguay Round. However, sectors key to Zambia's competitiveness were not bound but are very open. These were opened up under the reform programme supported by IMF and World Bank. The sectors are telecommunications, transport, energy and financial services. For development purposes, it might be necessary to commit to the de facto opening of the telecommunications and financial services sectors at WTO using article IV and article XIX of GATS.

Zambia might also want to adopt a strategy where it commits a certain number of sectors at WTO and a certain number of sectors at the regional level – the "4 plus 5 strategy". The four sectors at WTO are telecommunications, transport, energy and financial services. This will ultimately increase the competitiveness of the domestic services sector. At the regional level, the country can push for services sector important to regional trade. There are five of them: business and professional services, communications, financial services, transport services and labour mobility in respect of the entry of business persons.

Non-tariff barriers

The market for most of Zambia's non-traditional products is the regional market. Most of this trade is under SADC or COMESA. While preferential tariff rates are important in enhancing the flow of trade, trade is faced with numerous non-tariff barriers. These tend not only to inhibit trade but also increase trade costs, ultimately making Zambia uncompetitive. One option for Zambian policymakers is to focus on rule-making and harmonization of trade rules. Activities that increase the trade facilitation of both imported and export goods will lower costs and contribute more to increased export goods. Negotiations that make rules of origin more flexible and less restrictive will do more to improve Zambia's trade performance.

4.2. Addressing behind the border issues

Macroeconomic policy

The Zambian economy has had positive real growth since 1999. This has been supported by high copper prices and high capital inflows especially into the mining and services sector. The intensive reform effort

in the late 1980s and early 1990 helped to induce flexibilities which allowed the country to adjust and grow. The prudent fiscal and monetary policies which have been consistently applied, albeit with some aberrations, have also helped support the growth process. This has seen the inflation rate drop from 34.8 in 1995 to 7 in 2013. There have been efforts too to stabilize the budget at a deficit of around 3-4 of GDP in the past five years, although the deficit spiked at 8.5 of GDP in 2013. The country has also maintained a flexible managed exchange rate since the late 1990s. This has sometimes been threatened with volatility. A stable macroeconomic policy environment is a pre-condition of a viable trade policy and increased exports. Policymakers should continue to maintain the current macroeconomic stance and continue to improve upon it.

Domestic services sector

As pointed out, the domestic services sector is crucial to reducing production and trade costs and therefore to promoting trade. Zambia needs to work on the reform of the sector through regulatory reform, capacity-building and liberalization. Countries have achieved the liberalization of services trade in three ways: by opening their services sector unilaterally to international competition in the context of domestic reform. Zambia has done this in the context of the IMF/World Bank reforms since 1991. There have been reforms in the finance, energy, transport and telecommunications sectors. Much of this has recently stalled. This is true with regulatory reforms. However, the ultimate result was that these sectors are now very open to foreign service providers.

The second way to liberalize is through preferential arrangements such as SADC and COMESA. There are negotiations to open selected sectors under SADC and COMESA but this process has also stalled.

The third way is to liberalize at the multilateral level under GATS. This might be a better option for Zambia, given that the domestic services sector is already open. The strategy should be to consolidate its regulatory framework to support the outcomes of negotiating for market access to Zambian service exporters, but also to build up capacity for the services sector by allowing foreign service providers into the Zambian market. The potential export market for services in Zambia is the regional market for professional and business services and transport. Zambia also has an import interest in financial, transport, telecommunications and energy services.

Zambia's strategy should be to take advantage of the autonomous liberalization that has already taken place in the sector. This can be tied to capacity-building in the sector by increasing the participation of the private sector and building the capital market. Zambia could do this by placing conditions on market access for foreign service providers on this de facto liberalization using GATS articles IV and XIX. This can only be done through commitments at WTO. The Government could then target key services sectors that have a cost-linkage effect with export production and overall competitiveness. These are telecommunications, financial services, and transport and energy.

Energy

Energy, especially electricity, is a major input into production and a major determinant of export production and its competitiveness. Because of the lack of capacity in the sector, its services are inefficient, which increases the cost of production. For example, producers of wheat suffer losses because of poor quality and erratic supply of electricity (ZNFU, 2013: 11). The major problem is the lack of investment in the sector, especially in generation capacity and access to the national grid. This is where structural reforms might be needed in order to make the sector more competitive. Currently, the electricity sector is dominated by ZESCO, a State company. ZESCO dominates the generation, transmission and supply of electricity in the country. There is one private producer for both generation and transmission.

A major challenge is how to make the sector operate efficiently and bring investment into the sector. ZESCO can be considered an integrated company. Its bundle consists of components that are competitive and components that are not. High-voltage transmission and local supply and distribution are components of ZESCO that are clearly not competitive. However, ZESCO's generation activities are competitive. One of the options for Zambia, in order to bring investment into the sector, is to unbundle and restructure ZESCO so that the generation components can be independent and in competition with other or new-generation companies. ZESCO can retain its monopoly as a high-voltage transmission and distribution company. This restructuring is likely to bring in investment and stimulate innovation and efficiency in the electricity sector. This will ultimately reduce costs and increase access to electricity in the country.

Financial services

The financial services sector in Zambia is very open and has performed well. However, it still has problems of limited access, domination by foreign service providers and limited local private sector participation. Not much use has been made of it to promote the development of other financial institutions, or to deepen the capital market in the country. One option is to isolate commercial banking and use its current de facto opening to commit it at WTO so that certain development conditions can be attached to the current opening of the sector.

Here, it is important to distinguish between three types of financial liberalization (World Bank, 2002). There is domestic liberalization, which allows the market to work by eliminating controls on lending and deposit rates and on credit allocation, capital account liberalization, which removes controls on capital inflows and outflows and convertibility of currency, and the internationalization of finance services. The latter eliminates discrimination in treatment between foreign and domestic service providers and removes barriers to cross-border provision of financial services. Although, the three are interrelated, the focus here is on the scope and quality of liberalization, which should allow foreign service providers to enter the domestic market without restriction.

Commercial banking is dominated by foreign service providers. The sector is open, and entry is free. It is important to tie this access to capacity-building and development of the capital market and private sector participation using GATS articles IV and XIX. This would make access of foreign service providers to the Zambian market conditional on being limited public companies with shares on LUSE. In order not to be unduly restrictive to foreign entry, a threshold in terms of the market share in total deposits and total loans could be set, for example, at 10. Zambia could then commit the current opening at WTO with the above conditions attached.

Telecommunications

The telecommunications sector covers fixed-line services, mobile and Internet services. The service provider for fixed-line services is ZAMTEL, a State monopoly wholly owned by the State. It might be necessary to unbundle the company and get a strategic partner with about 25–40 shareholding and turn ZAMTEL into a public limited company with shares on LUSE.

The mobile market has grown rapidly during the recent past. All the mobile companies have developed innovative products and have penetrated rural areas. There are only three mobile service providers. There is one domestic service provider, ZAMTEL, and two foreign service providers, MTN and Airtel. The latter is a public limited company. It is important to use this development for capacity-building by helping to build the capital market. The Government can control the access of foreign service providers by requiring them to be public limited companies with shares on LUSE and foreign ownership limited to 60 of total shareholding.

Restructuring of MCTI

In order to move the reform agenda forward, it might be necessary to re-structure MCTI. The reform agenda is one which works to take measures which will ultimately reduce costs and make Zambia competitive in its export products. Originally, the Ministry of Trade and Industry, as it was then called, was divided into the Departments of Trade and Industry. The new Department of Commerce and Domestic Trade was created in 2003/2004, when the Department of Trade was split into two, Foreign Trade and Domestic Trade, which were previously sections, to ensure that negotiating functions were given due attention without jeopardizing the focus on domestic trade issues. This institutional arrangement in the ministry has become anachronistic, as it has made it difficult for MCTI to focus on one major component of the economy which is inhibiting the growth process: the high cost and inefficient services sector. The current arrangement in MCTI blurs the focus on the services agenda, leaving it to other Government ministries whose focus is regulations and control and not on how regulations can increase costs if not managed properly. One option is therefore to restructure MCTI into four departments: Human Resources and Administration, Planning and Information, Trade, and Industry. In this arrangement, the current Department of Domestic Trade will be a unit under the Department of Industry. The Department of Industry will thereafter deal with all issues related to production of goods and services.

Increased foreign direct investment

The Zambian economy is open to foreign direct investment (FDI). There are no restrictions on FDI

inflows into the country. Most FDI has flowed into the mining and services sector. The major disincentive to increased FDI is the competitiveness of the Zambian economy. There is a need to reduce costs in the economy. With lower costs, it will become profitable for FDI to flow into the economy and take advantage of potential value addition and diversification activities. Lower costs will also facilitate the participation of FDI and local companies in regional and global value chains. Zambia must therefore encourage investors to take advantage of value addition and global value chain activities. This is likely to lead to increased trade and exports (ADB, 2014: 126).

4.3. Addressing issues beyond the border

Market access in export markets

As noted earlier, market access is not a constraint on export expansion and diversification in the country. The major constraints are the cost of production and trade costs in the process of exporting and importing goods. Most of Zambia's non-traditional exports go to SADC, the European Union and COMESA, which has preferential rates. Copper is exported to markets where the tariff rates are very low, in most cases set at zero or very low rates. As table 4.1 shows, most of Zambia's non-traditional exports go to COMESA and SADC countries. In 2013, about 45 of total earnings from non-traditional exports came from SADC and COMESA countries, with SADC countries the predominant source of earnings. The European Union contributed only about 4.8 of total earnings from those exports.

The COMESA and SADC markets are important for Zambia's non-traditional exports. However, they involve several non-tariff barriers like SPS, technical barriers, quotas and restrictive rules of origin and those arising from inefficient and cost-raising trade facilitation rules and procedures. Yet, even in the regional market, the country's increased export earnings are limited by low export volumes, low value addition in its export products and lack of competitiveness because of the high production and trade costs in the domestic economy. Zambia should therefore seek to address the issue of high costs in the domestic economy while at the same time seeking deeper regional integration. The focus here would be on harmonizing and collaborating on trade rules for the region so as to facilitate increased trade.

Zambia's export earnings from Asia have increased less than earnings from other regions. They increased from \$62.7 million in 2008 to \$163.3 in 2013, but the total value of trade increased to equal that of the European Union. The Asian market thus offers great potential for Zambia's exports of non-traditional exports. This should be encouraged in the form of South-South trade.

The European Union still offers potential as a market for Zambian non-traditional exports. The preferential rates offered are still important for products like horticulture, floriculture, sugar, coffee and cotton. Moreover, even though Zambia became a lower-middle-income country in 2012, it can still benefit from the EBA Agreement because it is still defined as a least developed country under the United Nations system. On the other hand, the prospective EPA might end the preferential treatment for Zambian goods should

Table 4.1. Non-traditional export earnings by market or region, 2008–2013 (Current million dollars)

	2008	2009	2010	2011	2012	2013	Percentage change (2008-2013)
COMESA (only)	30.05	26.61	66.24	129.57	154.29	104.29	247.1
COMESA/SADC	596.99	533.63	577.19	811.27	91.93	1 668.09	179.4
SADC (only)	294.78	208.41	449.75	540.34	1 398.53	1 099.96	273.1
European Union	145.35	145.40	146.49	60.44	117.73	168.69	16.1
Asia	62.67	44.45	77.27	186.92	107.35	163.27	160.5
Other markets	78.97	20.29	64.87	540.34	1 008.16	345.98	338.1
Total non-traditional exports	1 208.81	978.8	1 381.81	1 832.53	2 877.98	3 550.28	193.7

Source: ZDA Exporter Audit.

the country opt to not sign the agreement, in which case it may have to revert to GSP. In the long term, Zambia can continue to address access issues to the European Union market and seek technical assistance to help the country resolve the supply-side constraints that limit the quantity, quality and competitiveness of export products.

Regional and multilateral negotiations

Zambia is a member of WTO and also two regional preferential trading arrangements, COMESA and SADC. It is also involved in the negotiations for the EAC/COMESA/SADC preferential trading areas and the EPA negotiations with the European Union.

The country is actively involved in the negotiations at the regional level. It should continue to build capacity in these negotiations. However, because the country's exports are dominated by a primary product, copper, this might adversely affect the country's negotiation ability and participation in multilateral negotiations (UNCTAD, 2006). The private sector is also unlikely to be interested in such negotiations. The strategy would then be to grow the economy through diversification and value addition by seeking greater domestic and

foreign investment. This will have spillover effects for the country's negotiation ability in the long term at the multilateral level (UNCTAD, 2006).

As a founding and consistent member of WTO, Zambia needs to work with other countries in addressing trade issues at the multilateral level. The country already participates in various coalitions at WTO. The objective is first to achieve better market access conditions for Zambian goods and services in global trade, and second, to participate in global rule-making on international trade, which takes place at WTO. This is strategically important for ensuring that the country has scope to protect and preserve its policy space to pursue national developmental objectives and interests.

The specific objectives for Zambia at multilateral negotiations should be to enhance market access for products of export interest to developing countries, eliminate industrialized country subsidies and domestic support for inefficient agricultural producers in developed countries, negotiate and press for the elimination of rules that perpetuate global trade imbalances, and promote policy space in all WTO agreements through special and differential treatment.

V

CONCLUSION AND POLICY RECOMMENDATIONS



As discussed in this paper, it is necessary to explore the barriers to increasing Zambia's exports in order to design an effective trade policy framework. Failure to boost the country's exports also has a negative effect on jobs, incomes and poverty reduction. As pointed out, the copper sector is still dominant in the economy. There has been significant diversification in the export sector. Non-traditional exports have increased significantly but this has had little impact on reducing the dependence of the economy on copper exports.

Since 1999, Zambia has enjoyed positive growth, which has been fuelled by high copper prices and significant FDI inflows, mainly into the copper sector. This poses a major external risk to the future growth process of the country because the country is heavily dependent on the high price of copper to sustain the growth process. Furthermore, the growth process has not been inclusive and has not significantly reduced poverty levels in the country, which are still very high.

On the whole Zambia's exports have not grown significantly in real terms. They are faced with limited volumes in export sectors, limited value addition in export products and lack of competitiveness. The lack of competitiveness is the main factor restraining the growth of Zambia exports such that Zambian producers are unable to take full advantage of market opportunities under preferential arrangements under SADC, COMESA and the European Union. The lack of competitiveness is caused by high production and trade costs in the domestic economy.

To address this, the country must go beyond tariff reform and permanent seeking of preferential trading arrangements. Policymakers must be bold enough to deal with the domestic factors that can reduce costs. In resolving factors that hinder competitiveness and export growth, it is necessary to involve the private sector.

Since the late 1980s, Zambia's main objective has been to increase non-traditional exports. Most of this has been through regional trade. Zambian policymakers have focused on how to harness regional trade for diversification and value addition. Activities at WTO, especially with regard to negotiations, are only important insofar as they shape the global and regional trade rules that Zambia trades in. They will be of benefit in the long term. However, in the short term, MFN tariff reductions in agriculture, reductions

in import subsidies and domestic support may have no significant effect on Zambia's trade. The Trade Facilitation Agreement is likely to have more impact for the country because it has a more immediate impact on regional trade. Similarly, the EPA and AGOA arrangements can only have a long-term impact if Zambia addresses the immediate constraints on increased trade: the cost of doing business and the competitiveness of the domestic telecommunications, transport, financial services and energy sectors.

Recommendations

Several recommendations emerge from the paper:

- (a) To support the growth process, Zambia needs a stable macroeconomic environment that keeps the inflation rate low. It also needs sustainable fiscal deficits and an exchange rate that favours export production. Policymakers have worked hard to maintain a stable macroeconomic environment and a flexible exchange rate since the late 1990s, although there were slippages in some years. They should maintain this policy stance to support trade policies and strategies to promote export production and increased exports;
- (b) To support increased trade, Zambia must focus on activities that increase regional trade. Its negotiations and activities at the multilateral level must support the country's objective to achieve diversification and value addition through increased regional trade. Supporting the implementation of TFA, which principally seeks to expedite the movement, release and clearance of goods across borders and improve customs cooperation, will be more effective for Zambia's trade strategy than pushing for MFN tariff reductions and the removal of subsidies. This is also true for agreements such as EPA and AGOA, which should be focused or refocused on enhancing the efficiency of trading across borders;
 - (i) The major objections to EPA are threefold: it will limit regional development policy space, hamper efforts at trade diversification and undermine existing integration processes in SADC and COMESA. Because Zambia's trade is dominated by regional trade and its exports to the European Union are under preferential access, EPA is more important in terms of its impact on Zambia's regional

- trade. Zambia's strategy should be to use EPA to strengthen regional integration and use the development component of EPA to influence the country's participation in regional trade. The development component can be used to address the problems of poor infrastructure and the high trade costs that the country and region faces. This could pave the way for increased FDI and more regional trade and therefore higher rates of growth (UNCTAD, 2009: 49). This will mean tying development assistance to improving infrastructure, regulatory capacity and national and regional interconnectivity;
- (ii) AGOA is potentially important for Zambia. There has not been much trade between Zambia and the United States under AGOA because most Zambian firms have been unable to access the market because they are uncompetitive. AGOA is, however, important for regional trade and building production networks in the region. AGOA's rules of origin that help manufacturers source their inputs from anywhere in Africa are likely to benefit Zambia (UNCTAD, 2009: 50). This has the potential to build up production networks and supply chains in the region. Zambia should strengthen its participation in AGOA;
- (c) At the multilateral level, Zambia must continue to support negotiations at WTO in respect to the liberalization of market access for both agricultural and non-agricultural trade. These are unlikely to have an immediate impact on Zambian trade, but they will ultimately secure a global market for agricultural and industrial goods. The country should participate in global rule-making, aiming to protect and preserve policy space to pursue national objectives and support the emergence of a global trading system that is supportive of Zambia's developmental objectives and interests;
- (i) The upper limit for the country's tariffs and services commitments should be WTO binding obligations. It is therefore important for the country to have a strategy for the negotiation of these tariffs and commitments, and to observe a strategic tariff policy that supports industrial development;
- (ii) Zambia has actively pursued the conclusion of the Doha Round. The country's interest in the negotiations should be based on the contribution of the Round to the creation of a more robust international trade regime that will create and enhance opportunities for development. The most important negotiating objectives should be as follows:
- a. Enhancing market access for products of export interest to Zambia and other developing countries;⁴
 - b. Eliminating industry country subsidies and domestic support for inefficient producers, especially in agriculture;
 - c. Negotiating rules that perpetuate global imbalances in trade;
 - d. Negotiating policy space through special and differential treatment. In this regard, the country should evaluate negotiations at WTO in terms of the erosion of preferences, although because of weak exports to preference-giving countries, this is likely to be insignificant;
- (iii) Zambia is wary about the slow progress in the 13 years of trade talks on the Doha Development Agenda. The slow progress means that new multilateral trading rules will take time to evolve. However, Zambia should continue to participate actively in WTO negotiations under the Agenda and support the Bali package concluded in Indonesia in December 2013 as early harvest. This is aimed at streamlining trade facilitation procedures hindering global trade. Most of the proposals in the Trade Facilitation Agreement have a regional dimension for implementation. This is very important and helpful for Zambia in its efforts to enhance and expand its export trade. The country should, as soon as possible, establish a national trade facilitation committee as recommended in the Agreement;
- (iv) The country should continue to support the post-Bali work programme in agriculture, non-agricultural market access and services and for the reform of the WTO system to strengthen its role in global trade

- governance. The successful conclusion of these negotiations will energize the global trading system and enhance potential market access opportunities for Zambian products in global trade;
- (v) A major issue in global rule-making is the treatment of the Singapore issues: investment, government procurement and competition policy within WTO. The country's position should be that these might be better addressed in bilateral or plurilateral free trade arrangements before they can be pushed at the WTO or multilateral level. This is because the learning process in designing and implementing the new rules might be beneficial. Furthermore, integrating the Singapore issues into regional agreements would facilitate FDI inflows and the development of regional production networks. This would enhance regional trade;
- (d) Policymakers should work towards building a competitive economy. This will need to focus on reducing the cost of production and trade. The organization of the domestic services sector and building its capacity is key. Policymakers must work towards increasing competition and achieving regulatory reform. In that way the domestic services sector can be competitive and develop linkages between the domestic services sector and international trade in both goods and services trade. To start with, the country should establish a strong base of domestic services reform. This should be spearheaded by MCTI. The necessary actions would include the following:
- (i) Introducing necessary domestic services regulations for both domestic and foreign suppliers;
 - (ii) Developing a framework of coordination between different ministries dealing with services;
 - (iii) Developing a framework for the interface with the private and public sectors. This does not currently exist;
 - (iv) Setting up an interministerial domestic services reform and development committee, which would be coordinated by MCTI and would oversee the introduction of necessary laws and regulations and institutional arrangements for developing the domestic services sector in Zambia and strengthening linkages between the domestic services sector and international trade;
- (v) Setting up a services trade development council. Its mandate will be to pursue the development of the domestic services sector. This is crucial because the inefficient organization of the domestic services sector is a major contributor to the high cost of doing business and high trade costs in Zambia;
- (vi) The experience of producers is that the cost of doing business is broadly linked to the services sector. Yet public policy and regulations adversely affect the operations of the services sector. Apart from reforming the services sector, there is a need to establish a regulatory impact assessment facility. This should include the establishment of an institutional framework to allow for timely and effective response to concerns raised by the private sector;
- (e) To promote the services agenda, Zambia should pursue the "4 plus 5 strategy". This is unilateral liberalization at WTO in its four key services sectors that are adversely affecting domestic costs. This strategy will help the country focus on the sectors which are important for reducing costs and are currently impeding growth: financial services, telecommunications, transport and energy. For instance:
- (i) Zambia has yet to resolve its potential in electricity generation. Export producers are faced with erratic and unreliable electricity supplies, adversely affecting their production and increasing their costs. The country needs to increase its investment in electricity generation. In order to increase the incentive to invest in generation facilities, it is necessary to restructure ZESCO. One way to do this is to unbundle ZESCO and remove the competitive component of the integrated firm. This is the generation component which can then compete with other generation companies. This unbundling is likely to bring investment and stimulate innovation and efficiency to the sector;

- (ii) The efficiency and effectiveness of the telecommunications sector is crucial to fostering the competitiveness of producers in the economy. Costs in the Zambian telecommunications sector are still very high, especially compared with its competitors. Investment is needed in the sector. One way of doing this is to unbundle the competitive components of ZAMTEL, such as mobile telephony, and bring in a strategic partner in ZAMTEL;
- (f) In addition to the 4 plus 5 strategy, Zambia should promote an agenda to liberalize five key services sectors at the regional level that are seriously inhibiting the growth of regional trade. These are business and professional services, communication services, financial services, transport services and labour mobility in respect of the entry of business persons. It is necessary to list domestic regulations in Zambia, and these need to be disciplined to help the growth of the services sector and exports;
- (g) Zambia should bind the de facto opening of key services sectors at WTO. These sectors, of import interest, are telecommunications and commercial banking. These are sectors that have already been agreed at the regional level, at COMESA and SADC. The binding would allow the country to attach conditions for development purposes, using GATS articles IV and XIX. The conditions could involve capacitating the capital market in Zambia and increasing the participation of the private sector in the services industry. The country could extend such binding to sectors such as retail business and insurance services;
- (h) The current applied MFN tariff rates for Zambia, which range between 0 and 25, should be maintained. However, the tariffs on capital goods can be examined with the intention of making them zero. This is to allow firms to invest in new plants and equipment;
- (i) There is no import licensing except for a few restricted goods. Specific duties are rarely used. The tariffs are uniform, i.e. tariffs on individual products are the same for all exporters. However, there does not seem to be a rational way of arriving at tariffs. It is recommended that Zambia adopt a strategy for determining tariffs. This would enable the country to relate its industrial policy to its trade policy as stipulated in the country's overall strategy to achieve Vision 2030. Trade policy can then be used as an instrument of industrial policy in the context of narrowing options under multilateral and bilateral trade agreements. Industrial policy will orient the country towards activities that create value addition and diversification. This would create employment and boost the economy. After detailed analysis, the country should identify the priority sectors that it would wish to promote. Tariff reform can then be considered against the objective of building a diversified economy and value addition. To support this process, the country must create a tariff commission that will be responsible for setting Zambian tariffs, and managing and resolving any international trade issues that might arise;
- (ii) To support industrial policy, the tariff commission should implement a strategic tariff policy, wherein tariff policy is determined on a sector-by-sector basis for multilateral trade. This will take account of the sector strategies identified by industry policy. Regional tariff policy will be determined by regional organizations. The upper limits for tariff-setting are WTO obligations and regional agreements. This recommendation is consistent with the recommendations from Zambia's latest DTIS;
- (i) Zambia should seek deeper integration in the region, given that most of its non-traditional trade is in the regional market. The focus should not be on tariffs, but on working on the removal of non-tariff barriers, facilitating trade, enhancing economic cooperation in large-scale regional projects in joint energy, communication, transport and border infrastructure development, and on harmonizing rules and regulations in SADC and COMESA. Zambia should also focus on South-South trade, as it is becoming increasingly important for the country. In the short term, the European market is unlikely to be very important in furthering the growth of exports in Zambia;

- (ii) On the other hand, the COMESA-EAC-SADC Tripartite is an important step in advancing the regional integration agenda and advancing trade across Africa. This is a market of 26 States, with a combined population of 625 million people and a GDP of over \$1.2 trillion, and it accounts for half the membership of the African Union. However, in the short term, Zambia already enjoys access to all Tripartite countries through mostly reciprocal duty-free and quota-free trading arrangements under the COMESA and SADC FTAs. Thus, major benefits for Zambia will come from working with Tripartite countries and encouraging them to reduce trading costs in the region;
- (ii) The aforementioned infrastructural development programme and trade facilitation initiatives will be important in this respect. Zambia's priority in the Tripartite negotiations should be harmonized rules of origin for the three regional groupings. This will facilitate the creation of a region-wide agreement that will enable the convergence of SADC, COMESA and EAC and thereby support development among members. The Tripartite Initiative is also an important stepping stone towards the formulation of an African common market in the long term;
- (j) In its export promotion activities, the country should focus on the export of agro-processed products and services to the regional market. Over the years, there has been little change in the composition of Zambia's exports. Its exports are dominated by copper and non-traditional exports. The major exports are engineering and mining equipment, textiles and garments and processed foods (NEAC, 2008: 15). Significant export services are transport and travel. These exports are mainly directed at the regional market;
- (i) This regional export penetration strategy should be coupled with an expansion in the presence of Zambian firms in the regional market. Currently, this is low, compared with that of firms from other regional economies. Zambia can encourage the opening of wholesale and retail outlets by the private sector in regional markets, with supply chains from Zambian agricultural and agro-processing sectors. This would be a key strategy for introducing and exporting high-quality Zambian goods in the region. To support the initiative and motivate exporters, particularly new ones, to introduce their finished products, the Government can provide a subsidy on the rental cost of retail outlets or warehouses for three years, for example;
- (ii) New exporters, especially smaller ones, invariably face high costs in obtaining information in export markets. This is yet another major obstacle to the development of competitive capabilities. It is therefore recommended that the Government develop a scheme to give good exporters, especially in the regional market, access to subsidized credit, including trade credit;
- (k) Zambia should encourage FDI inflows into the country, especially in industry, agriculture and services, to take advantage of the efforts at value addition of local products and diversification of the economy. However, this will not happen unless policymakers work towards the reduction of production and trade costs. Furthermore, if the country is to benefit from regional and global value chains, it should work on the efficiency of its services sector;
- (l) To deal with its landlocked status, Zambia should pursue two strategies. Firstly, the country should support regional integration initiatives so that it can influence neighbouring countries' policies on infrastructure development and trade facilitation. This will address trade constraints and tend to reduce costs. Secondly, Zambia should prioritize the development of the services sector. Goods trade is bulky and dependent on road and rail transport infrastructure. In this regard, trade in specific services would help to circumvent the current physical infrastructure demands and constraints facing Zambia as a landlocked country. This strategy is essential to link domestic producers with regional and international chains and networks and attract FDI, technology, capital and know-how (Hoekman, forthcoming);
- (m) Zambia needs to develop production networks and supply chains with the regional economy that can take advantage of diversification and

- value addition. A key component of production networks is production unbundling. This creates opportunities to increase trade and diversify the export base through value addition. Building production networks in the SADC and COMESA countries will facilitate industrialization, trade and growth of the Zambian economy. However, the pre-condition to this is to lower trading costs and make Zambian firms competitive. This will attract FDI, which is crucial for building regional production networks and global production chains. Zambia could identify two or three sectors in agro-processing in which detailed studies could be carried out to determine export potential in the region;
- (n) Zambia should encourage South–South trade, especially with the BRICS countries, because this is becoming increasingly important. Currently, this trade is only important in exports of primary commodities which the country wants to diversify away from and develop value-added exports of manufactured goods. However, Zambian goods are unlikely to be competitive in southern markets, as Zambian goods cannot compete favourably with goods from southern markets even elsewhere in Africa. For example, Zambian sugar is failing to compete favourably with Brazilian sugar in the Burundi market. Zambia must work on the cost of production before it can compete favourably in southern markets;
- (o) Like many African countries, Zambia’s trade policy emphasizes the need to build material infrastructure to support trade. However, little or no attention is paid to the need to build non-material productive capabilities. In Asian countries where export diversification and value addition are taking place, deliberate policies have been formulated to build non-material productive activities. This is recommended as an important ingredient of trade policy. Non-material productive capabilities are important for catching up and are an important pre-condition for structural transformation. This involves learning in schools, in production, social and cultural systems, organizational networks and enterprises, among other things;
- (p) In order to diversify and add value to exports, it could be worthwhile to identify some agro-processing sectors, for example, that have export potential. These sectors could be studied further to provide more detailed information. Zambia could then request technical and financial support from development partners such as China that have expertise in the sectors to establish manufacturing plants in the country;
- (q) Mainstreaming trade in national development plans and strategies is another key element of trade policy. As the export of goods and services is a major contributor to economic activities, it would appear appropriate to suggest that trade is not only mainstreamed as a provider of income for other economic activities, but is financially and technically supported in order to be a major engine of economic growth and inclusive development. The extent to which trade is mainstreamed in the country’s national budget and other economic programmes is important;
- (r) The quality and availability of data is often a significant constraint on policymaking, business decision-making and trade. The Government should undertake efforts to improve the quality, accuracy and consistency of trade data. This will greatly improve the timeliness and quality of decision-making. This capacity must be improved both at MCTI and CSO. This will involve investing in hardware and the training of human resources. MCTI should also draw on international competitiveness frameworks to benchmark national policies and actions. It should use the global competitiveness frameworks that have emerged in the past decade as measures of best practice and for benchmarking domestic competitiveness. These can be integrated into a national trade policy monitoring and evaluation framework, and can also be supported by value-chain analysis for specific sectors and products of interest. They include the World Economic Forum global competitiveness index and enabling trade index, the World Bank Doing Business Report and the UNCTAD *World Investment Report*;
- (s) MCTI should institutionalize a consultative process with stakeholders, especially the private sector. It is necessary to make the work of NWGT part of the permanent structure in the Ministry. A cabinet ministerial committee on trade is suggested to deal with various trade issues that arise both at policy formulation and implementation;

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- (t) MCTI should be restructured. The current institutional arrangement at MCTI does not promote attention to issues arising from the domestic services sector. Yet this is a major sector of the economy whose products are cost-raising for the domestic economy. One option is to merge the Department of Domestic Trade with the Department of Industry. In the current structure, all issues to do with domestic services are avoided and left for Government ministries whose mandate is more of a regulatory nature to deal with;
- (u) In terms of private sector involvement, the private sector must perceive the link between trade negotiations and their ability to do business in the region and globally. An institutional structure should be created which will involve all participants in the private sector. This should involve both foreign and local firms and small- and medium-sized firms. Currently, there is very limited participation of the private sector. Perhaps, to encourage participation, the Government, as a matter of policy, can make membership fees for recognized private sector organizations tax deductible. The improvement of the business environment would have the greatest impact on SMEs. MTNs can work through an inefficient business environment, but SMEs cannot. The most effective way to help SMEs is to be attentive to their problems so as to improve the business environment;
- (v) There is a need to develop linkages between trade policy, commercial diplomacy and foreign policy, as well as to make embassies and diplomatic missions accountable and result-oriented by consolidating their capacities, by inter alia, prioritizing trade-using trade statistics;
- (w) There is a need to strengthen and enhance the capacities of the public and private sectors in trade implementation and monitoring processes, and to develop linkages to other key ministries and departments. These capacities should involve dialogue among public and private sectors and civil society;
- (x) The trade policy formulation process should be designed so as to mainstream cross-cutting issues, especially those on the environment, youth and gender;
- (y) To support growth in both the manufacturing and services sector, the Government should put in place a mechanism for preferential treatment in Government procurement for local producers. This should be linked to investment policy;
- (z) Issues regarding the management of the Food Reserve Agency affect both the production and export of maize. In order to address issues relating to strategic reserves under the Food Reserve Agency, the Government should design more transparent agricultural interventions.
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ENDNOTES

- ¹ The time comparison of HDI here is purely illustrative and cursory, given the methodological changes to the index across the period, which limit the reliability of time comparisons.
 - ² At the time of preparing this paper, the BOP statistic on copper production and exports for 2013 was a preliminary figure that was likely to be revised downwards, hence the seeming discrepancy between the downturn in the price and increasing copper exports in figure 2.5.
 - ³ The notation DB for each year refers to the “Doing Business” year, which is normally the year immediately after the calendar year of the doing business survey.
 - ⁴ Suffice it to say that for Zambia, negotiations at WTO do not have an immediate impact on trade because most of Zambia’s exports are raw materials that have zero tariffs in the world market and non-traditional exports directed at the regional market. The market access conditions here are determined by regional obligations and incentives.
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