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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 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 competiveness. 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.