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HOW ZAMBIA CAN ACHIEVE EXPORT-LED ECONOMIC GROWTH

A Report Prepared for the

GOVERNMENT OF THE REPUBLIC OF ZAMBIA

In preparation for a Stakeholders' Meeting on the Integrated Framework for Trade-Related Technical Assistance

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Acronyms used in the Report

AGOA	Africa Growth and Opportunity Act (USA)
CBI	Cross Border Initiative
COMESA	Common Market for Eastern and Southern Africa
EBZ	Export Board of Zambia
EU	European Union
IF	Integrated Framework
IMF	International Monetary Fund
ITC	International Trade Centre
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
LDCs	Least Developed Countries
MCTI	Ministry of Commerce, Trade and Industry
PRSP	Poverty Reduction Strategy Paper
RTAs	Regional Free Trade Agreements
SACU	South African Customs Union
SADC	Southern Africa Development Community
SMEs	Small and Medium Enterprises
SPS	Sanitary Phytosanitary
UNDP	United Nations Development Programme
VAT	Value Added Tax
WTO	World Trade Organisation
ZACCI	Zambia Chambers of Commerce and Industry
ZAM	Zambia Association of Manufacturers
ZBS	Zambia Bureau of Standards
ZCC	Zambia Competition Commission
ZCCM	Zambia Consolidated Copper Mines
ZEGA	Zambia Export Growers Association
ZIC	Zambia Investment Centre
ZNFU	Zambia National Farmers Union
ZNTB	Zambia National Tourism Board
ZTC	Zambia Tourism Council
ZRA	Zambia Revenue Authority

EXECUTIVE SUMMARY

This report analyses Zambia's requirements for trade-related technical assistance. The multilateral agencies that constitute the Integrated Framework have made a commitment to assure that the needs of the least-developed countries in this area are met, so that they are not marginalised from the benefits of a rule-based international trading system.

Zambia's Export Potential

The report concludes that marginalisation is not a problem in Zambia. Zambia has enormous export potential. Plans underway and under consideration by firms in Zambia could lead to a more than tripling of exports over the next decade. Growth in exports of copper and other metals would be important, but other sectors, notably agriculture and tourism, could grow even faster. Overall, Zambian exports could rise from the 2000 level of $932 million to $3.1 billion by 2010.

Such a result would have enormous consequences for Zambian development:

- Combined with debt relief under the Highly-Indebted Poor Country (HIPC) initiative, it would end Zambia's long nightmare of an overwhelming debt burden, and make way for rapid and sustainable economic growth. The present value of Zambia's external debt could fall from 444% of exports today to a very manageable 85% by 2010.

- It would end a quarter-century of economic stagnation and decline, offering – for the first time in more than a generation – real opportunities for productive employment inside Zambia for the country's most promising young people.

- It would provide dynamic growth of employment. This would include a tripling of employment in export-related industries, and particularly in the labour-intensive sectors of agriculture and tourism.

- As a consequence of the labour-intensity of exports, poverty could fall by 30% or more over the next decade.

In sum, Zambia's export capacity could, if properly exploited, dramatically improve the living conditions of the majority of its citizens within a decade. The task for Zambian policymakers is to seize this opportunity by undertaking – with support from the international donor community – the policy and institutional actions that can make this possibility a reality.

Donor Support

The report concludes that the availability of donor support in the trade field is not a serious constraint to Zambian potential. Donor programs now underway and planned for the future are important, and donors appear willing to provide additional assistance where conditions warrant. The main areas where technical assistance is recommended include the following:

- Reinforcing political commitment to export-led growth

- Strengthening marketing and technical capabilities of Zambian firms

- Ensuring private participation in critical trade-dependent infrastructure
- Incorporating trade into Zambian strategic analyses, including the PRSP
- Developing new approaches to supplying services provided by the MCTI and other ministries
- Providing assistance for specialised WTO, COMESA, and SADC concerns
- Analysing alternatives for removal of taxes on exporters
- Reducing the burden of donor assistance
- Enhancing Zambia's ability to meet world-wide standards

The linkage of this aid to Zambian priorities and implementation capabilities is of critical importance. Without such linkages, donors can promote activities that are not sustainable in the longer term, and that draw scarce Zambian management, funding, and implementation capabilities away from more pressing needs.

Improvements in the quality of donor assistance could be achieved through more frequent meetings among stakeholders in Zambia. This is the key role that an Integrated Framework process – expanded to include bilateral donors – can play. The extensive program of technical assistance and training on trade requires constant dialogue and information exchange among participants. In some areas, it is possible that the assistance provided in the past has exceeded Zambian absorptive capacity: donors were trying to provide more specialised technical advice and training than Zambian government institutions were able to absorb.

Constraints

The paper identifies numerous constraints to Zambian export growth. Some are external, such as practices by some of Zambia's trading partners that impede the growth of Zambian exports. Remedies for such practices can and should be pursued under the rule-based system that the WTO makes possible. Nevertheless, the low level of Zambian exports owes much more to conditions inside Zambia than to practices of other countries. Consequently, the main emphasis in promoting Zambian exports needs to be on making changes inside Zambia. The most important internal problems are:

- *Macro-economic and policy instability*. Zambian inflation is too high, leading to high interest rates and great uncertainty.
- *Weak infrastructure*. Transport, telecommunications, and electricity systems need major improvements, much of which can be achieved by privatisation or concessioning.
- *Taxes*. Zambian exporters are disadvantaged compared to foreign competitors by the lack of a duty-drawback or export processing zone regime that would allow them to acquire imported inputs at world prices. Escalation in tariff rates by stage of processing also makes exporting less profitable than import substitution.
- *Lack of political support for exporting*. The export sector has not received the

priority consistent with its critical role in Zambian growth. The Ministry of Commerce, Trade and Industry and its dependencies have been severely under-funded.

- ✍✍*Poor public-private dialogue*. Communication between the private and public sector is poor, reflecting suspicions and lack of understanding on both sides. Private-sector associations frequently make unreasonable or self-serving demands to government policymakers, reflecting an inadequate appreciation of the limits for government action. The government has sometimes treated dialogue with the private sector as an afterthought, undertaken after critical decisions are made.

Developing a Trade Strategy

The above constraints cannot be fully addressed immediately. Though most require government policy action, they cannot be solved by government alone. Government action can only happen after a process of analysis, discussion, and political debate – requiring expenditure of the scarce time and energy of government policymakers. Many required decisions will harm powerful interests, and can only be implemented if the government is willing and able to override such opposition, and if supported by influential members of civil society. These considerations mean that decision-making capacity is a scarce resource, which should only be used for actions where the payoff is significant and immediate.

Most of the problems also require government budgetary outlays, or the short-term sacrifice of government revenues. Government revenues are very scarce at the present, but should become less so as the economy revives and increased revenues begin to flow into the government treasury.

Not all of the constraints can or should be addressed at the same time; those constraints that are most important in retarding Zambia's exports must be addressed first. The key problems at present are improved collaboration between the public and private sectors, greater focus by government on the key issues of importance to exporters, and coordination by Zambian stakeholders of donor flows.

Once the Zambian policymakers and stakeholders have developed a general strategic approach to the sequencing of trade-related activities, they will be in a position to work with donor agencies to develop an appropriate set of assistance activities. Beyond that, the critical need is for government and the private sector to communicate effectively to remove obstacles to exporting. The country will also require significant direct foreign investment in the export sector, so a serious investment promotion program -- with a demonstrated willingness to encourage new investment – is also important.

First Steps

A starting point for Zambian development of an export strategy might include three elements:

- ✍✍*Using the PRSP to gain focus*. Zambia's Poverty Reduction Strategy Paper (PRSP), being prepared for the World Bank and IMF, is a useful tool for public discussion of the role of exports in Zambia's future.

- ✍✍*Begin a public-private collaboration on exports*. As discussed above, this is critical to making progress on concrete actions that can increase exports.

- *Develop near-term export goals.* A full-fledged export strategy must await the entry of the next government into office. Many actions that can produce near-term results cannot wait. Actions focused on such results need to be identified and implemented.

I. Introduction

101 From an economic development perspective, Zambia offers a combination of past disappointment, severe poverty, democratic political tradition, and great potential. The 2000 Human Development Report by the United Nations Development Programme (UNDP) places it among the poorest countries in the world – those with "low human development." The UNDP ranks Zambia number 153 out of 174 countries. Zambia is also located in a poor "neighbourhood." The bordering countries of Tanzania, Mozambique, Malawi and Angola all are lower than Zambia in the UNDP's human development rankings, and the Democratic Republic of the Congo is ranked number 152, just above Zambia.

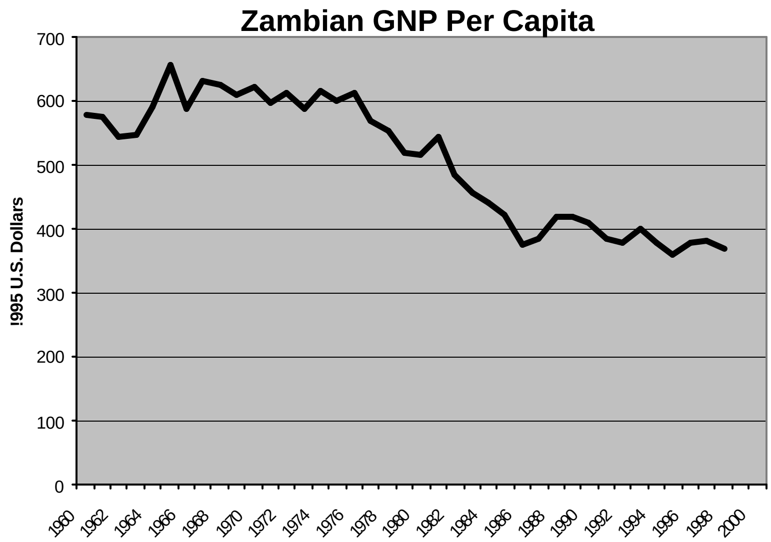
102 According to UNDP, Zambian human development has actually declined over the past quarter-century. Much of this decline is due to a fall in per capita income, from $641 in 1975 to $388 in 1998, both measured in 1995 US dollars. Another part of the decline is due to the AIDS epidemic, which has reduced life expectancy sharply during the last decade – from more than 50 years to 40. An estimated 20% of the adult population is infected with AIDS. On the other hand, Zambia has a relatively high rate of literacy for a least developed country, and a relatively large number of educated people. It also has maintained democratic rule and internal peace since Independence, unlike many of its neighbours. *One of the development challenges facing the country is how to capitalise on the productive potential of Zambia's human resources, its democratic traditions, and its political stability.*

103 Zambia's average per capita GDP stagnated in real terms during most of the 1970s, then declined sharply between 1976 and 1986. Since then, it has been relatively stagnant at the lower level, and shown in Chart 1. As discussed below, the decline in income relates to a steady decline in the country's exports, which fell (again using 1995 US dollars) from more than $4,100 million in 1969 to $742 million in 2000.

104 Zambia's economic difficulties relate importantly to the interaction between the strategies adopted during the early years following independence and events in the world economy. A state-led development approach involved the state in ownership and management of enterprises, large and small, throughout the economy. This included nationalisation of mining, the country's primary export sector. The country also erected high barriers to imports of many goods in order to encourage domestic production. This initially produced an increase in investment and output in the manufacturing sector.

105 This approach produced moderately positive results in the early years, but was heavily dependent upon favourable prices for copper exports and substantial inflows of foreign aid from abroad. In the late 1970s, world copper prices plunged, and the cost of servicing Zambia's rapidly-growing foreign debt rose sharply. With the fall in capacity to import, Zambia's economy – now heavily dependent on imported raw materials – began to falter. During the early years of the downturn, the country borrowed heavily, including credits from the International Monetary Fund, in the expectation that copper prices would return to earlier levels. During the 1970s, Zambian external debt mounted quickly, while export earnings declined.

Chart 1



Source: World Bank, World Development Indicators

106 Since about 1980, the relationship between Zambia and the international donor community has centred on overcoming the debt problem while restoring economic growth. IMF debt – which is designed to provide very temporary funding for balance of payments problems – illustrates the problem. Zambia debt to the IMF went from nothing in 1970 to nearly $800 million in 1981. For the last two decades, a series of IMF and World Bank-supported adjustment programs have sought to reduce this debt as a step toward restoring Zambia's economy to a sustainable basis. The programs consistently failed to meet their goals, and the country sank steadily deeper in debt and economic stagnation. By the end of 2000, Zambian debt to the IMF had grown to $1.2 billion, while that to the World Bank and its IDA affiliate had risen to $1.6 billion, from zero in 1970. Zambia's debt to each institution exceeded its annual earnings of foreign exchange from exports of goods.

107 In retrospect, the last two decades of interaction between Zambia and its multilateral creditors show a consistency in developing unworkable plans for reducing Zambian debt to a manageable level. Elaborate forecasts showing the way to future growth in the economy, and in exports, would be developed using arcane procedures. The programme would be blessed by both participants, but be followed a few weeks or months later by the realisation that the optimistic forecasts would not be achieved.

108 Despite the failure of the externally-supported adjustment programmes to address Zambia's debt problem, Zambia has made substantial progress in improving the operation of the economy since 1991. Trade liberalisation has reduced the maximum tariff rate from more than 100% to 25%, eliminating major distortions in the productive structure. The country has moved back toward a market-based economy, privatising

hundreds of state enterprises, ending foreign exchange controls, and allowing the exchange rate to respond to market forces.

109 Zambia is now in a position to break the cycle of the debt trap and stagnant economic growth, for two main reasons: debt relief and export growth. The decision by the IMF and World Bank at the end of 2000 to declare Zambia eligible for substantial debt reduction under the Highly Indebted Poor Country (HIPC) initiative provides – for the first time in decades – real promise that the treadmill of continuous refinancing of an unmanageable debt burden can be stopped. Table 1 compares the debt service due from Zambia under three alternatives: payments actually due, payments made under the traditional debt rescheduling approach that Zambia has used in the past, and anticipated payments under HIPC.

Table 1

Zambian Debt Service, 2000-2010

(US$ Million)

Payment Concept	Actual 2000	Due 2001	Due 2005	Due 2010
Scheduled Payments	386	606	501	289
With Traditional Debt Relief	193	436	434	256
With HIPC Debt Relief		158	202	135

110 Two points are evident from the table. First, HIPC is no panacea. Zambia will continue to make substantial payments of interest and principal into the future. Payments will not fall significantly until after 2005. Second, because of the end of grace periods, Zambia's debt service obligations were due to rise sharply in 2001, compared to the previous year. HIPC prevents this from happening. Thus, HIPC acts less to reduce debt service payments in the near term than to prevent them from rising sharply to leave Zambia on the same debt treadmill as before.

111 Non-traditional exports (i.e., all products except copper) have grown rapidly in the past decade, due to the economic policy reforms initiated in the early 1990s. Since 1991, these exports have tripled, rising from $89 million in 1990 to $286 million in 1999. With the privatisation of the mining sector, metal exports are also poised for rapid growth. Altogether, it is possible – with appropriate policies and favourable external economic conditions -- for **total** exports to triple between 2000 and 2010, rising to more than $3 billion per year.

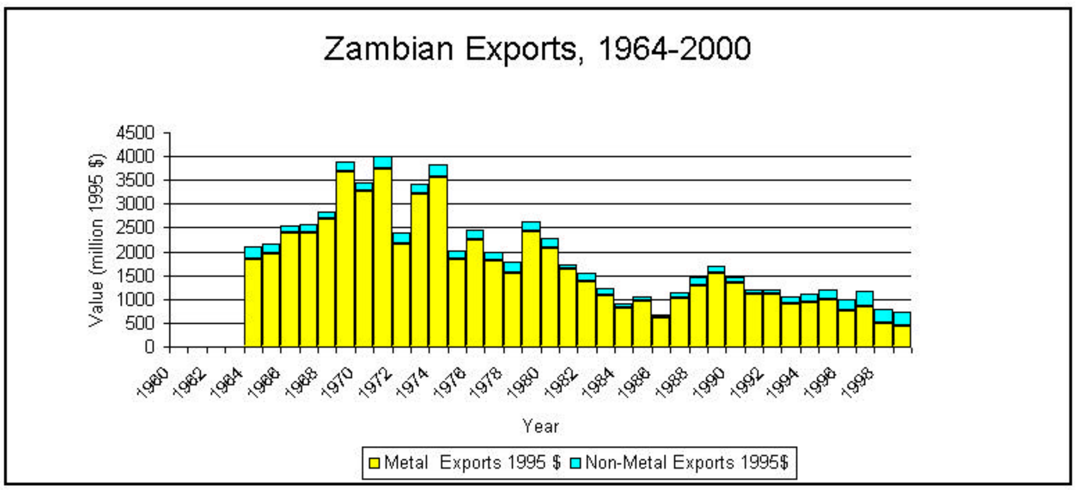
112 The combination of debt reduction and potential for rapid growth in exports means that Zambia today has the opportunity – for the first time in decades – to dramatically improve the economic conditions of its people in a relatively short period of time. *This is the opportunity which must be seized.*

Trade, Economic Development, and Poverty Reduction

113 Zambia's foreign trade has long been dependent primarily on copper mining. Copper has traditionally accounted for 80 to 90 percent of Zambia's export earnings. The volume of copper exports has declined steadily since the early 1970s. Combined with a gradual decline in the world price of copper, this has meant that Zambia's capacity to import has steadily fallen. Chart 2 shows the trend in Zambian exports over this period, measured in 1995 U.S. dollars. The chart also shows the dominance of metal exports in the total – representing more than 90% of all exports for most of the period. The declining availability of imports lowered productivity and production in Zambia, leading to falling incomes for Zambians.

114 While Chart 2 is labelled "Zambian Exports," it could with almost equal validity be labelled, "Sustainable Level of Zambian Imports." In the long term, a country can only pay for the imports of goods that the country cannot produce efficiently by exporting an equal amount to the rest of the world. As shown dramatically by the chart, Zambia's capacity to import – i.e., its capability of benefiting from world trade – has fallen dramatically from the 1970s.

Chart 2



Source: World Bank and Bank of Zambia

115 The overall trend in exports is determined primarily by copper exports. The world price of copper in 1995 dollars has fallen by about half from the early 1970s. Nevertheless, a decline in the volume of copper exports was even more important in reducing export earnings. The volume of copper production fell by more than 80%. In fact, copper production showed little deviation from a steady decline, averaging about 25,000 tonnes per year, from its 1974 peak of 884,000 tonnes, reaching about 240,000 tonnes in 2000.

116 The other sectors of the Zambian economy have been affected in important degrees by decline in copper earnings. The manufacturing sector grew rapidly during the early 1970s in both employment and production, but has since experienced a continuous downward slide. In the early years, this was due to the lack of foreign exchange to pay for necessary raw materials or intermediate goods. More recently, the

liberalisation of imports has created great disruption to many firms producing for the local market, who have found it difficult to compete with imported products either in price or quality. The main activities in the manufacturing sector include food processing and beverages, copper refining, cement, textiles, and petroleum refining.

117 The agricultural sector employs more than half of Zambian workers, but only contributes about 15% to Zambian GDP. Thus, productivity in Zambian agriculture averages only about 30% of that of the whole economy. Most farmers are engaged in low-productivity agriculture primarily aimed at subsistence. Finding additional cash crops with robust markets can be a means to raise their incomes substantially.

118 Many farmers have depended in part on government provision of subsidised fertiliser – though problems of late delivery and poor quality have sometimes limited the effectiveness of this form of assistance. Subsidised fertiliser, in fact, has encouraged small-scale farmers to focus on maize to the exclusion of other cash crops with greater export potential, such as sunflower and groundnuts. Indeed, the agricultural sector has great potential for increased productivity through better management, improved technology, and production of crops for which export markets are available. Agriculture's importance to poverty reduction lies in the fact that it is labour-intensive, rural based, and offers opportunities for women as well as men. In fact, some of the more promising dry-land cash crops, such as groundnuts and beans, are traditionally regarded as "women's crops."

119 Tourism is another sector of potential importance for trade, though the country's considerable tourist resources have largely remained underdeveloped. Like agriculture, this is a sector that is rural based, and relatively labour-intensive, so its expansion could be important in directly contributing to poverty reduction through increased employment. Tourism also offers many linkage opportunities for small-scale farmers and enterprises to supply goods and services (e.g., food and beverages, landscaping and grounds maintenance, and handicrafts).

120 In sum, external trade is of critical importance to Zambia's development. Just as the decline in exports led to shrinkage of the economy and declines in income, a rise in exports will bring general prosperity and rising incomes. Increased exports can be expected to have particularly favourable near-term effects in the agricultural and tourism sectors, where employment would respond quickly to increased production. Growth in copper production – while not labour-intensive – still brings tremendous benefits in the forms of foreign exchange earnings, tax collections, and local purchases of goods and services.

121 If export growth potential is achieved, government revenues would rise fast enough to end the long period of forced austerity. This would permit substantial increases in government investment in key areas like education, health and infrastructure. These developments would restore to Zambia the sovereignty over its own affairs that was promised at independence in 1964.

The Integrated Framework for Trade and its Objectives

122 At the first World Trade Organisation (WTO) Ministerial Conference, held in Singapore in December 1996, considerable concern was expressed about the difficulties faced by the Least Developed Countries (LDCs). Such countries were at the margin of the world economy, and fear was expressed that they might benefit little from the liberalisation of world trade.

123 Pursuant to the Plan of Action, six multilateral agencies -- IMF, ITC, UNCTAD, UNDP, World Bank and WTO – agreed to establish a mechanism to coordinate trade-related technical assistance to LDCs. This approach, labelled the Integrated Framework (IF), was approved by the High-Level Meeting on Integrated Initiatives for LDCs' Trade Development, organised by the WTO in October 1997. The Boards of UNDP, the World Bank and UNCTAD have subsequently endorsed it.

124 Zambia was among 12 LDCs that were discussed and selected for IF assistance during the High Level Meeting. A needs assessment for Zambia was presented at the meeting, and the six IF members subsequently prepared an integrated response, indicating areas in which they could offer technical assistance. While this has been a useful beginning, it has not provided an adequate basis for fully addressing the requirements and potentials for Zambian participation in the world trading system, or to achieve the levels of export-led economic growth that are possible.

125 Yet, the IF can be strengthened so that it accomplishes the purpose for which it was created. First, the work of the IF agencies needs to be more deeply integrated with that of other bilateral and multilateral donors and development partners. Second, Zambian needs for trade-related technical assistance need to be viewed in a dynamic fashion, where regular interaction and discussion among stakeholders provides a basis for assistance that responds to immediate and emerging problems, rather than to larger conceptual schemes that lose relevance as time passes and conditions change. Third, ownership and direction of the IF must be shared between the donors and Zambian public and private sector. Fourth, trade issues must be integrated – or "mainstreamed" – into the political and policy framework of the Zambian government. Without such integration, and the consequent linkages between overall economic policy and the activities in the trade sector, technical assistance in this area is not likely to produce the desired results.

126 It is against this background that the Government of Zambia has announced its plans to hold an informal stakeholders' meeting in Lusaka on Trade Related Technical Assistance in April 2001.

127 The following are the objectives of the meeting:

- To achieve consensus that export-led economic growth is the essential ingredient for poverty reduction in Zambia.

- To endorse an IF process where all stakeholders --the donors, the private sector, and the Zambian government – work towards improving the policy framework for external trade and for full participation in the world economy; and

- To reach consensus on the need to mainstream trade, so that the priority activities related to trade are made an appropriate part of the government's overall development agenda.

- To discuss approaches to provide technical assistance to achieve these goals

The consultative process used to develop this report

128 This Trade-Related Needs Assessment report was prepared by two consultants: economist James W. Fox, and Harare-based businessman Donald E. Greenberg. The report was prepared after an extensive consultative process that included government ministries, statutory bodies, private sector organisations, and bilateral and multilateral donors. A list of the institutions consulted is in Annex A.

II. MACROECONOMIC ENVIRONMENT FOR TRADE

201 Like during the previous decade, the Zambian government spent most of the 1990s operating under one or another structural adjustment programme supported by assistance from the World Bank and IMF, as well as by bilateral donors. Unlike during the 1980s, however, the government that came to power in 1991 undertook to liberalise the economy and to return the main locus of economic activity to the private sector. Such reforms had been urged by the multilateral agencies in earlier years, but had mostly been opposed by the previous government.

202 The macroeconomic reforms since 1991 have improved the economic outlook of the country. In the trade area, the exchange rate became market-determined, generally depreciating at about the rate of domestic inflation. The tariff regime was markedly liberalised, with the maximum tariff rate reduced from 100% to 25% (with the maximum rate programmed to decline to 20% in 2001). Most prices were decontrolled, and more than two hundred government enterprises were sold to private investors or closed down. The last major divestiture, the Zambian Consolidated Copper Mines (ZCCM), finally occurred in March 2000.

203 The adjustment programme initially made considerable progress in reducing inflation, but progress later faltered. In 2000, inflation was 30%, compared to an original programme target of 14%. High world oil prices, exacerbated by a fire at Zambia's Indeni Oil Refinery, contributed importantly to this, but financing of the Zambian government's continuing fiscal deficits was also a major factor. Servicing the country's external debt is a major source of spending pressure. Annual interest obligations, for example, represent a larger share of government spending than salaries of government workers.

204 High inflation rates are a major obstacle to growth in exports because of their impact on interest rates. Long-term capital for investment is simply unavailable in this environment, and interest rates on short-term borrowing have been high – averaging 39% between 1997 and 1999, rising to above 40% during 2000. Such high interest rates have greatly discouraged investment.

205 Zambia has maintained a flexible exchange rate in recent years. The currency has been convertible, and the exchange rate has moved in response to forces of supply and demand. Overall, the exchange rate has tended to depreciate at a pace consistent with the difference in inflation between Zambia and its trading partners. During 2000, however, the exchange rate depreciated somewhat faster than internal inflation, causing concern by the government. As a result, the government took several steps in early 2001 away from a completely free foreign exchange market. Though exchange controls were not imposed, exporting firms were required to repatriate at least 75% of export earnings, and some restrictions were placed on the activities of bureaux d'exchange. Whether for these or other reasons, the kwacha appreciated by more than 15% during the first quarter of 2001.

206 The results at the household level of structural adjustment during the 1990s have been meagre. Over the decade, measured per capita GDP has declined slightly

(Chart 1). The share of the population living below the official Zambian poverty line has also risen slightly, from 70% in 1991 to 73% in 1998, according to Zambia's Interim Poverty Reduction Strategy Paper.[1] Recent growth trends are only slightly more favourable. The Bank of Zambia calculates GDP growth in 1999 at 2.0% and estimates growth for 2000 at 3.5%. With population growing at 2.2%, per capita income has risen only slightly over the two-year period.

[1] Data from the official accounts very likely understate real economic growth in a significant, but not quantifiable degree. First, the data do not capture improvements in quality over time, particularly in regard to imported goods and services now available through trade liberalisation. Second, parts of the economy are shifting from recorded formal trade to unrecorded informal trade.

III. TRENDS AND PROSPECTS FOR FOREIGN TRADE

Recent export trends are very encouraging….

301 Zambia's foreign trade trends and prospects are central to the principal findings and recommendations of this report. This chapter provides an overview of the most important results of the analysis. The details of the analysis and the basis for projections of exports and the consequences for the Zambian economy are contained in Annex B.

302 The liberalisation of the economy after 1991 was, in part, an effort to transform the country's economy away from dependence on one single product. Diversification of the country's export base was necessarily a slow process. Non-metal exports accounted for only $89 million dollars, or 7% of the country's exports, in 1990. Even a doubling or tripling of non-traditional exports would only be the beginning of the road toward elimination of copper's dominance.

303 Nevertheless, the results of the liberalisation have been dramatic. Non-metal exports more than doubled, growing at an annual rate of 13%, between 1991 and 1997. The results demonstrated that – despite all the obstacles to exporting in Zambia discussed below in Chapter V – the Zambian private sector was willing and able to act quickly in response to a more favourable policy environment.

304 Rapid growth has been evident over a wide range of products, notably including several sectors in agriculture. These include cut flowers and horticultural products for the European market, processed foods mainly for regional markets, and several categories of primary agricultural products, including cotton, tobacco and sugar sold on world markets. In the manufacturing sector, textiles and building materials have shown the greatest dynamism.

305 The rapid growth ended in 1997, and there has been a slight decline in non-metal exports between 1997 and 2000. Sharp declines occurred in several categories, including agricultural commodities, and processed foods and textiles. Some other categories, notably cut flowers and horticulture, continued to grow rapidly. The declines have been attributed to several factors. These include low international prices for cotton and coffee, reduced demand in neighbouring countries due to conflicts, reduced demand in Asia caused by the financial crisis, and the decline in the value of the currencies of Zambia's major trading partners, the EU and South Africa, relative to the dollar.

306 Service exports have been relatively small. Tourism is considered to have great potential, yet has so far remained underdeveloped. Nevertheless, the Zambia Investment Centre (ZIC) has issued certificates for investment in the tourism projects worth US$211 million over the past five years, and the largest of these projects will be

completed in early 2001.

Table 2

Past and Projected Zambian Export Performance

(Million US Dollars)

	1990 Actual	1999 Actual	2005 Projected	2010 Projected	Annual Growth Rate Actual 1990-1999	Annual Growth Rate Projected 1999-2010
AGRICULTURE						
Horticulture	5	24	55	90	19%	13%
Floriculture	1	43	85	171	52%	13%
Primary Agriculture	15	91	211	340	22%	13%
Animal Products	2	4	9	21	8%	16%
Sub-total	**23**	**162**	**360**	**622**	**24%**	**13%**
MINING						
Metals	1,168	468	981	1,307	-10%	10%
Gemstones	8	45	100	165	21%	13%
Other Metals	-	3	15	35	nm	25%
Other Minerals	-	1	2	4	nm	13%
Sub-total	**1,176**	**517**	**1,098**	**1,511**	**-9%**	**10%**
MANUFACTURES						
Processed Foods	6	41	95	237	24%	17%
Building Materials	4	10	18	24	11%	8%
Chemicals	3	6	5	4	8%	-4%
Engineering Products	20	23	40	55	2%	8%
Garments	3	0	2	4	-20%	23%
Textiles	9	37	86	138	17%	13%
Wood Products	1	3	5	7	13%	8%
Handicrafts	0	2	4	6	29%	11%
Leather Products	1	2	5	10	8%	16%
Petroleum Oils	11	6	10	13	-7%	7%
Scrap Metal	-	6	11	6	nm	0%
Other	-	6	12	19	nm	11%
Sub-total	**58**	**142**	**293**	**523**	**8%**	**13%**
Merchandise Total	1,257	821	1,751	2,656	-5%	11%
SERVICES						
Electricity	12	6	35	140	-7%	33%
Transportation	32	25	44	71	-3%	10%
Tourism	61	80	200	322	3%	13%
Sub-Total	**105**	**111**	**279**	**533**	**1%**	**15%**
Grand Total	**1,362**	**932**	**2,030**	**3,189**	**-3%**	**12%**

Source: Bank of Zambia for 1990-99 data, team projections for 2010.

… future export prospects are encouraging…

307 In the consultations for the preparation of this report, businesses, sector associations, government agencies, and independent experts were queried about future export prospects. In addition, the investment plans and budgets of the private sector taken from investment prospectuses, newspaper accounts, and personal interviews were analysed. The projections, therefore, were primarily based on empirical information, and mostly were not the result of rigorous statistical analysis or econometric forecasting

from current trends.

308 The projections in Table 2 can therefore be said to represent a composite forecast of future Zambian exports, neither pessimistic, nor drawn from the most optimistic sources. To achieve these levels, however, will require concerted action from the GRZ and private sector to implement policy declarations that have been made, and to improve communication and dialogue.

309 The basic conditions for this growth are already present. It requires that the government implement its own policy decisions and that the private sector complete its planned and anticipated investment projects. As shown in Table 2, a ***tripling*** of Zambian exports of goods and services is projected between 1999 and 2010 – from US$932 million to US$3,189 million.

310 Many observers of the Zambia scene are pessimistic about the country, so such a high growth rate needs justification. Several factors suggest that it may indeed be possible. First, it should be noted that achievement of the result would require exports to grow at an average rate of 12% per year. This rate of growth is not unprecedented. Numerous countries in East Asia have had export growth rates exceeding 30% per year for decades. A number of Latin American countries achieved faster growth rates over the past fifteen years, following an equally long period when exports declined.

311 Second, Zambian experience suggests that it may be possible. Of the four commodity groupings in Table 2, exports in one category – agriculture – are projected to grow at a slower rate in the future than the actual growth rate during the past decade. (The final two columns of Table 2 compare the projected growth rate for 1999-2010 with the actual growth rate for 1990-1999). For manufacturing, projected growth rates are higher than recent past but not a dramatic departure. The dramatic departure from the past growth rates is projected to occur in mining and in services. For mining and services except for tourism, the projections represent the results of investments either underway or now being actively considered by firms in the sector, and expected improvements in world copper prices. Tourism investment is expected to continue at high rates, but the time horizon for this sub-sector is far shorter. Later investment and growth will depend on future events.

312 Third, access to export markets for Zambia will be extended by the implementation of the COMESA Free Trade Agreement, the SADC Trade Protocol, the continuation of EU preferences under the Cotonou Agreement, and an expansion of the US market through the African Growth and Opportunity Act (AGOA).

313 Mining, including copper/cobalt, gemstones, and other categories will continue to be the largest sector, but their share should be much lower than the historic share of over 90%, or even the 60% share they held in 1999. In 2010, this sector is projected to fall to just under 50%. Copper is expected to have a long future. The Chamber of Mines estimates that production levels of 800,000 metric tonnes/year of copper and cobalt should be reached before 2010 and continue for 30 to 60 more years. The forecasted growth in gemstone exports will come from increased production levels, **and** increased value added by processing of lower-cost stones.

314 Agriculture, which has great promise within and without the region, will show a high rate of growth over the decade and end up contributing almost 20% of exports, up from less than 2% in 1990. For markets within the COMESA/SADC region, industry sources believe that cotton, tobacco, meat/poultry/dairy products, soya beans, sunflower, sorghum, groundnuts, paprika, and cassava will continue to attract investment and expansion. For markets in Europe, the Far East, and the USA, coffee, paprika, sugar, game products, cotton, essential oils/spices/herbs, tobacco, softwood timber, floriculture and horticulture, vegetables, certified organic produce, cut flowers, groundnuts, honey products will show continued growth. Tree nuts (cashew, macadamia), sesame, fresh fruits show great promise and are being introduced (or re-introduced) on a commercial scale.

315 Services should grow above the average overall growth rate. Tourism is the real engine of growth in this area. The largest tourism investments – more than US$50 million in 2001 for one investment alone – are in the Victoria Falls area. Safari areas such as Kafue and South Luangwa National Parks can provide the rest of the growth. Railways post-privatization should recapture lost ground and ensure that transportation's contribution to export earnings do not dip below 1990 levels. Selected manufacturing sectors, including copper manufactures, processed foods, textiles and wood products are expected to grow rapidly.

316 Our high-growth export scenario makes reasonable assumptions, notably assuming that the Zambian government will implement its own declared policy of continued privatisation and reliance on a market economy, and that the regional and global politico-economic environment does not worsen. The investment potential would be even greater if conditions in Zambia's "neighbourhood" improved. With stabilisation in Congo, and end to war in Angola, and a reversal of Zimbabwe's political and economic downward spiral, Zambia could potentially add significantly to exports by 2010.

…And have important consequences for Zambia

317 Tripling exports by 2010 would have a profound impact on the Zambian economy and the well-being of the Zambian people. Table 3 provides rough projections of the impact of increased exports in a few key sectors. These estimates are discussed in Annex B. They are rough, first approximations of likely effects, and should be refined, broadened to all export sectors, and tested by more rigorous analytical efforts than was possible under the constraints of this report.

318 Broadly speaking, the projected export growth would be expected to have substantial employment and income effects, particularly for small farmers and agricultural workers. This would make a large contribution to reducing poverty in Zambia. Government revenues would rise sharply, permitting larger allocations of resources for key social needs of the country. An investment boom would be a concomitant of export growth, leading to more rapid GDP growth. Overall, the projected export growth could provide the core of a growth and poverty-reduction strategy for Zambia. To achieve this result requires that the government of Zambia together with the private sector address the constraints. Our proposed strategy to remove the constraints to growth is outlined in Chapter 7.

Table 3

Impact of Increased Exports

	2005	2010
Direct Job Creation [Agriculture, Tourism and Mining only]	110 thousand	314 thousand
Annual Tax Revenues [Horticulture, Tourism and Mining only]	$71 million	$677 million
Additional Small Scale Farmers Growing Export Crops	68 thousand	226 thousand
Zambian Poverty Rate	73 percent	49 percent

Source: Team projections and estimates, drawn from Zambian sources

Export Growth, HIPC, and Debt

319 When considered together with the scheduled HIPC debt reductions, the forecast export growth would permit Zambia's long nightmare of unsustainable debt obligations to end. Table 4 shows three scenarios comparing Zambian debt to its exports. (Like the previous table, the numbers are rough approximations to a very complex reality.) The debt/export ratio is a useful way to compare the debt to the country's capacity to pay it off. First, the debt/export ratio is shown without HIPC debt relief. Second, it is shown with HIPC and the "slow" export growth (i.e., the numbers used in the IMF projections for the HIPC decision point discussion). Third, the debt/export ratio under the high export growth projections made earlier and HIPC debt relief is shown. Under this scenario, Zambian debt falls to only 85% of its export earnings by 2010 – an eminently manageable level of external debt. Without HIPC and fast export growth, it would still be at the unmanageable level of 178% of export earnings in 2010.

Table 4

Present Value of Debt as Percent of Exports

Concept	2000	2005	2010
Before HIPC	444	236	178
HIPC + Slow Export Growth	446	140	117
HIPC + Rapid Export Growth	446	125	85

Source: Team calculations from IMF Zambia Decision Point Document

IV. Trade Policy Formulation and Implementation

Government Trade Policy Institutions

401 During the 1970s and 1980s, the government was directly involved in production through the parastatal sector, and directly allocated foreign exchange through quantitative restrictions and permits issued by the government. Policy was changed in the early 1990s, and the government now sees its role as facilitating trade and production through formulation, implementation and monitoring of policies, and providing appropriate legislation to assure efficient operation of markets.

402 The Ministry of Commerce, Trade and Industry (MCTI) has the primary mandate to formulate trade policies and programmes to enhance trade capacity. As in most other countries, the Ministry plays only a secondary role in much of economic policymaking related to trade. The Ministry of Finance and the Bank of Zambia have the lead on such policies. Both have strong technical staffs, and much policy analysis and formulation is done with little consultation with the MCTI.

403 The MCTI has responsibility for both domestic and foreign trade, with most of its staff responsible for the former, including company registration and assizes. Overall, the Ministry has a staff of about 110. The international trade office has fifteen positions. As of early 2001, eight of these positions were filled, including three by persons on long-term study abroad. In addition, two long-term foreign advisors, one provided by USAID and one by GTZ, were resident. Both were due to leave in early 2001.

404 On trade negotiations alone, this level of staffing would appear inadequate. Zambia implemented full free trade with COMESA in 2000, for which numerous technical issues, such as final rules of origin, remain to be negotiated. The ratification of the SADC trade protocol in early 2001 is similarly the beginning of a process of harmonizing technical concerns. Zambian participation in the WTO also requires considerable staff time, including trips to Geneva and coordination with other African countries. Bilateral trade issues with Zambia's eight neighboring countries also require attention from the Ministry.

405 MCTI also has oversight responsibility for five statutory bodies with important links to trade issues:

- The *Zambia Investment Centre* (ZIC) has the dual responsibilities for registering and promoting foreign investment in Zambia.

- The *Zambia Privatisation Agency* (ZPA) has overseen the privatisation of parastatal companies.

- The *Export Board of Zambia* (EBZ) is responsible for export promotion.

- *Zambia Competition Commission* (ZCC) monitors and curbs restrictive business practices by firms and acts as an advocate for competition policy.

? ? *Zambia Bureau of Standards* (ZABS) enforces legislation on standards and handles issues of standardisation, testing, metrology, certification of products and conformity assessment.

Private Sector Institutions

406 Private sector contribution to policy formulation is done through a variety of trade and sector associations and interest groups. The closest entity to an apex organisation, the Zambian Associated Chambers of Commerce and Industry (ZACCI), at present has only limited resources and does not provide a leadership role on most policy issues.

407 Certain sector associations – most notably Zambia National Farmers Union (ZNFU) and Zambia Export Growers Association (ZEGA) -- are well established and have permanent secretariats with economists, if not full time trade analysts or advisers. Even these organisations have difficulty finding the time and resources to carefully analyse issues of concern to their members in order provide recommendations in a convincing form to government. The Tourism Council of Zambia, with fewer resources but a clearer shared interest, has presented a rather coherent policy statement. The Zambia Association of Manufacturers (ZAM) has had less success in this area, which perhaps is a reflection of the distressed state of the industrial sector. With privatisation of the mining sector, a new Chamber of Mines has been established. It has not yet developed capacity in the policy area, but given the potential resources to support this body, it is expected that it will come shortly.

Public/Private Sector Consultations

408 The government and private sector do consult each other on various issues, although neither side is very happy with the results. In the past, MCTI took steps to structural formal government/private sector dialogue through quarterly meetings. However, these meetings suffered from a lack of direction, participation, consistency and regularity. Participants changed from meeting to meeting, inhibiting continuity, especially when participating organisations were represented by relatively new, junior-level, employees. Many private sector associations have a startling lack of how the political process can work in a democratic system: for example, how to identify and build coalitions with common interests on key issues to ensure the attention of political leadership. The private sector is also not aware, in general, of how government at the civil service operates and makes decisions. The private sector can misinterpret a negative response as a result of civil service ineptitude or venality, rather than a result of budgetary constraints, or overriding priorities.

409 Government officials (and not just within MCTI) believe that the private sector rarely provides reasoned, constructive criticism of government policy. This is due in part to the lack of resources within the private sector associations. It is also an unfortunate reflection of the inward-looking, negative point of view expressed by some in private sector leadership positions, and to the frequent view that increased government subsidies to ones particular firm or industry would be good public policy.

410 The private sector, for its part, believes that government often uses consultative meetings as "window dressing," so that government can say they have consulted the private sector, before proceeding to do what they had always intended. Alternatively, government is perceived to invite docile pro-government businesspeople as private sector "representatives", and does not really care to hear differing views. Business leaders also complain of being informed of meetings with little advance notice. The private sector believes that in many cases government just doesn't think of inviting them to participate in policy development, even when both parties are in general agreement over goals. Some cite the lack of private participation on the negotiating teams on SADC and COMESA protocols, while those of Mauritius and South Africa had heavy business input. Finally, the private sector also believes that the civil service lacks the capacity to act, even if they do listen and agree to suggestions and recommendations.

411 Some of the communications problems between government and private sector are unavoidable, for confidentiality is often essential to policy deliberations. Nevertheless, Zambian public policy would benefit from greater knowledge by government officials of the potential effects of key decisions on the private sector.

412 Intra-governmental dialogue is another problem area. Although MCTI has the mandate to initiate government dialogue with the private sector on trade issues, many of the concerns raised by the business community relate to taxation, energy tariffs, transport networks, which are better addressed to the Ministry of Finance and its statutory bodies, or the relevant line Ministries. In order to be effective on such questions, MCTI needs to have good working relations with the Ministry of Finance and the other economic line ministries and statutory bodies. At present, this capacity does not exist.

Strategy Processes

413 As discussed in Chapter III, export growth may be the key to rapid poverty reduction in Zambia. Nevertheless, the trade sector was barely mentioned in Zambia's Interim Poverty Reduction Strategy Paper (PSRP), prepared during 2000. A full PRSP is now being prepared. It does not have a separate chapter on trade, but efforts are being made to encourage the various sectoral working groups to give appropriate attention to this issue. Since the PRSP will provide the framework for much foreign assistance to Zambia, proper treatment of this area is critical. If trade is not accorded a separate chapter in the final version of the PRSP, it is important that it be included as a key cross-cutting issue.

414 The Integrated Framework process, which could have facilitated some of this co-ordinating and consultative function, has never really taken hold in Zambia. There has been a difference in perception among participants regarding its purpose, with some Zambian participants seeing the IF mainly as a vehicle to provide additional resources for trade projects.

415 Export promotion is one of the expressed main tenets of government economic policy. Nevertheless, funding and policy support for this area has declined in recent years, and the Zambian government interest in this area has waned. The Export Board

of Zambia, in particular, has gradually decayed. It is an unfortunate fact of life that funding for all statutory bodies has declined in recent years. The Zambian government is planning increased funding for EBZ in 2001. The PRSP might usefully address funding priorities among statutory bodies.

Import Restrictions

416 The economic reform program of 1991 simplified Zambia's tariff structure by reducing the tariff bands from 12 to 4. The maximum tariff rate has been reduced from 100% to 25%. Selected raw materials attract zero tariffs, capital goods attract a tariff of 5%, intermediate products attract a tariff of 15% and finished products attract a tariff of 25%. Most imports attract value-added tax (VAT) of 17.5%, with certain high priority items zero-rated. There are certain anomalies; e.g., finished drugs attract a zero VAT rate, while pharmaceutical packaging for local production attracts the full VAT rate.

417 The Duty Draw Back Scheme and Manufacturing Under Bond, designed as incentives to potential exporters, are cumbersome, and need to be streamlined. The problems include delay in processing of claims (which ties up working capital), and lack of transparency. The minimum threshold to qualify for Manufacturing under Bond is considered to be too high for most enterprises.

418 Feasibility studies have been carried out to set up Export Processing Zones (EPZ), under which qualifying firms would have imports exempted from duty – as well as other benefits -- therefore giving these exporters access to inputs at world market prices. However, the EPZ initiative has not been pursued aggressively by government, although apparently some provisions have been made in the 2001 budget.

419 Zambia does not maintain any non-tariff barriers on imports. Import licensing was dismantled in 1995, and import documentation is being streamlined and simplified following the computerisation of customs operations through ASYCUDA. Port clearance processes are generally considered to be reasonably quick and efficient. The only import prohibitions that exist are for environmental, health, security reasons and for purposes of observing international conventions. Most sectors of the economy are open to foreign and local investors, the exceptions being certain activities that are still controlled by the parastatal sector, including fixed-wire telecommunications and railroad services.

WTO Membership and Multilateral Agreements

420 Zambia is a founding member of the World Trade Organisation (WTO). Its participation in the Uruguay Round of multilateral negotiations was very limited due to lack of capacity, resources and knowledge on the implications of the round of negotiations on the country.

421 Zambia does derive benefits from its WTO membership, which assure access for Zambian goods in other markets. Nevertheless, WTO negotiations have so far not provided assured access to markets for Zambian (and other LDC) agriculture products. Agriculture is a sector of great importance for Zambian exports, and a source

of comparative advantage for the country. The Lomé convention has provided technical and financial resources to help Zambia develop non-traditional exports for Europe under the duty-free access provisions of the agreement. Nevertheless, unrestricted access to developed-country markets would be preferable.

Policies on Regional Trade Arrangements

422 The Zambian government has long promoted closer trade relations with neighbouring countries through support for Regional Trading Arrangements (RTAs). Zambia has negotiated bilateral trade agreements with countries in the region, and is an active participant in two regional trading arrangements: COMESA and SADC. Zambia is pursuing regional integration through both entities. Zambia is one of nine COMESA members that eliminated tariffs on goods originating in participating COMESA countries in October 2000.

423 Some in the Zambian business community opposed the COMESA action, fearing that zero tariffs would lead to closure of industries in the country and relocation of industries due to high costs in Zambia, particularly for electricity, telephone service and finance. At least one company, Amanita, has maintained that the COMESA FTA will compel it to shut down wheat milling and refining in Zambia and relocate to Malawi and Zimbabwe. Agricultural subsidisation may be the root issue here, for which WTO or regional remedies might be indicated. In addition, it is always difficult to sort out the respective importance of genuinely unfair trade practices with a lack of competitiveness.

424 Some rationalisation of production can be attributed to the COMESA FTA. One example often cited is Unilever, which apparently plans to move all soap production in Zambia to Zimbabwe, and move all washing powder production from Zimbabwe to Zambia. As one of the points of the FTA is to increase specialisation and competitiveness in industry in the region, Unilever's apparent decision would be a sign of success.

425 Trade liberalisation under SADC has been negotiated to secure Zambian access into the market of South Africa and the other members of the Southern African Customs Union (SACU). South Africa is the largest market in the region – indeed the continent -- and participation in SADC will reduce obstacles to Zambian exports to that country. The opportunities will be considerable. One large Copperbelt-based textile company alone reported that within one year of SADC ratification South Africa would take 20% of its production, up from current levels of 9%.

426 The Zambian government has also supported Cross-Border Initiative (CBI), a regional effort to promote integration through co-ordination of infrastructure investment and promotion of more efficient transportation and communication links within the region.

427 Zambia's approach to participation in regional trading arrangements has sought general political benefits, and specific economic benefit for particular sectors. Despite the obvious opportunities that have been presented, joining COMESA and SADC introduce complexities into the government's trade policy that are likely to demand

considerable attention and effort from the government – perhaps even more than that required by WTO participation. There are two types of issues, one with a substantial political content, and one mainly economic.

428 With the establishment of full free trade within COMESA, government will be faced with increasing numbers of complaints by local businesses of unfair competition, dumping, or violations or rules of origin on products from other members. Some of these complaints will be justified, while others will not, but the process of separating legitimate trade issues from normal competitive pressures -- as in the Amanita case cited earlier -- will severely tax the government's limited capacity for analysis.

429 The issues relating to the general economic impact of RTAs are quite complex. Experience elsewhere suggests that RTAs among developing countries may lead to reductions in industrial activity in the less-advanced countries in any regional grouping, and the concentration of such activity in the more advanced country of the grouping. This is because an agglomeration of firms in one location typically leads to efficiencies in production and to lower costs. Thus, joining a RTA with South Africa could conceivably lead to two changes: 1) migration of industrial production from Zambia to South Africa (which economists call trade creation); and 2) a shift in Zambian imports away from non-members of SADC to South Africa (which economists refer to as trade diversion). The first of these shifts introduces efficiencies and lower costs (even at some cost to Zambian production), at least in a static sense. The second change would involve a shift from a lower-cost producer to a higher-cost one inside the SADC tariff wall. Such trade diversion can be minimised by maintaining a low external tariff.

Investment Policy

430 The 1993 Investment Act provided the legal framework for investment in Zambia in all sectors except banking, insurance, and mining and quarrying, which have separate legal frameworks. The objective of the investment policies is to attract both local and foreign investment in sectors that have high growth potential and capacity to earn foreign exchange. Amendments to the Investment Act in 1995 have reduced considerably the incentives for investors.

431 The Zambia Investment Centre (ZIC) was established in January 1992 to attract new investment to Zambia, to simplify administrative procedures related to investment, and to co-ordinate government policies on investment. ZIC processes all investment applications in all sectors except for finance, mining and quarrying. ZIC has not yet become a fully-fledged one-stop shop in the sense that all procedures required in getting an investment license are not yet being conducted under one roof.

432 Some co-ordination problems continue to exist, most notably on immigration and land use issues. ZIC's investment certificate may entitle the investor to a certain level of expatriate employment, for example, but the investor may still encounter problems obtaining the employment permits from the immigration department. In some instances, renewal of employment permits for the investors is delayed for lack of information that the immigration department should have at hand because of its

membership on the ZIC board of directors. In short, ZIC does not appear to be able to ensure that all Zambian government agencies that need to give permits and licenses for approved investors are being reasonable and co-operative.

433 The Zambia Privatisation Agency (ZPA) has managed the government's privatisation efforts after 1991. Since many privatised companies have been sold to foreign investors, it has also played an important role in investment promotion. In the early years of its existence, ZPA had the momentum and political capital to move very quickly. This momentum later slowed, and the last few (politically-charged) privatisations have still not been completed. The privatisation of the mining sector, completed in March 2000, required intense external pressure from the donors, despite the substantial continuing drain on Zambian government revenues from delay in sale of the company. Similarly, the political commitment to privatisation in the electrical, telecommunications, railways, and oil refining parastatals may have diminished.

434 The work of ZIC and ZPA has produced only modest Direct Foreign Investment (DFI) inflows in recent years. Net DFI averaged about US$65 million per year during 1994-98. Macroeconomic instability, the slow pace of privatisation, and poor infrastructure are factors of likely importance. The actual level of foreign investment has also lagged far below investment pledges made to the Zambian Investment Centre. In 1998 and 1999, pledged investment totalled US$1,026 million and US$153 million, respectively. DFI flows have mainly been from South Africa and the United Kingdom, much of it to take over former state enterprises in the privatisation program.

435 More than 40% of both pledged and implemented investments has been in services, most notably retail trading. The prospects for mining investment, now that privatisation in this sector has been completed, are staggering. Konkola Copper Mines (KCM) is projecting an additional investment of over US$500 million, for Konkola Deep alone. This figure will be easily matched if not exceeded by the other three active mining houses, especially if the western areas of the Copperbelt are developed.

V. Constraints to Trade

501 Zambia can achieve its potential in world trade, and meet the target of $3 billion in exports by 2010. But Zambian firms must become more efficient and develop more specialized capabilities, national infrastructure must be improved, and Zambian government institutions and systems must be strengthened in a variety of ways. Completing these tasks is the work of years, if not decades. In the dynamic global marketplace, countries and companies must constantly adapt and reinvent themselves. This process never ends. The rest of the world will not hold still to give time for Zambia to catch up.

502 Prioritisation of problem areas is essential, to permit sequencing of policy actions and programmes. Many of the constraints to achieving higher export levels should also be seen as investment opportunities. If the Zambian government can provide the right enabling environment, the private sector will seize these opportunities and make the necessary investments. The weakness of the telecommunications infrastructure, for example, will be seen as a desirable investment by foreign investors if government provides the opportunity.

503 The fundamental, over-arching issue, however, is the lack of political support for export-led economic growth, although there is a great deal of rhetorical support. In fact, this lack of support is one of most important reasons why other constraints to exports have been allowed to emerge.

504 Many Zambians, including some in leadership positions, believe that increased exports benefit the non-indigenous sectors of Zambia, with little “trickle down” to indigenous Zambians.[2] Foreigners, whites, and Asians are seen to own the factories, mines, tourist resorts, and large commercial farms that export. The perception is their export revenues are sent overseas to service external debt obligations. Their profits often masked by under- and over-invoicing. There is undoubtedly some truth to some of these perceptions, but in reality the benefits of exports to economic growth and to widespread poverty reduction are profound, as pointed out earlier in this report. More broadly, international experience suggests that capital flight occurs where the environment provides few opportunities for profitable investment, and flows into countries where such opportunities exist.

505 These perceptions mean that important economic decisions are made by politicians without a proper balancing of interests. A good example is the continued use of fertiliser subsidies. While it may have short-term political benefits, it is very costly and discourages exports. Cheap fertilizer encourages farmers to produce maize at the expense of export crops such as groundnuts, sorghum, and cotton. None of this should be interpreted as urging that households be discouraged from growing enough to eat; the point is that scarce government resources are going into unmarketable maize

[2] Zambia’s President pointed out in a recent speech that the mines repatriated $400 million of revenues in 1994, but only $18 million in 2000. While this is true, the reason for the drop is that in 1994 ZCCM had cut back investments, and was running down its equipment. In 2000, the new owners of the mines are making massive investments. Prior to privatisation, the Copperbelt was in recession; by late 2000, the region was again booming.

production and not enough into exportable cash crops.

506 The discussion of the constraints to trade is organised into three categories; Supply Side Constraints, Trade Promotion Constraints, and Market Access Constraints. Many excellent reports have identified and analysed many of these constraints in more detail. This report highlights the more important ones.[3]

Supply Side Constraints

507 Outside of the political commitment issue discussed above, the highest priority for Zambian producers and exporters are supply-side constraints.

Most Zambian Firms Lack Market Orientation

508 The encouraging rate of non-traditional export growth has been limited to a small number of firms – many foreign owned and managed – with considerable knowledge of world market operations. Most Zambian firms, on the other hand, lack the orientation, knowledge and experience to be able to compete successfully. Part of the problem is the heritage of decades of import substitution, where many industrial firms enjoyed domestic monopolies and protection from competition from abroad – and from the managerial and technological developments that were taking place elsewhere. Consequently, many Zambian firms do not understand world market requirements, let alone have the capacity to produce at competitive prices.

Macro-economic and Policy Instability

509 Investment is risky and investment capital is costly. High domestic interest rates make short-term borrowing for business ventures costly and long-term borrowing unavailable. Many otherwise good investments cannot be made under these circumstances. Firms are forced to rely on internal finance for expansion, which limits the pace at which they can innovate and grow.

510 As export revenues grow, tax revenues will grow, and the need for the Zambian government to borrow will decrease. This should reduce the pressure on interest and exchange rates. In a real sense, Zambia will grow out of this constraint, if other constraints are addressed.

511 Government policies on specific issues frequently shift unpredictably. The lack of transparency in government decision-making processes regarding investment incentives, land use permits, and mundane matters requiring permits create uncertainties in the business community that hinder investment.

Inadequate Infrastructure and Services

512 As a land-locked state, Zambian exports are heavily dependent on the cost and

[3] See for example **National Action Programme for Private Sector Support (NAPPSS)** MCIT, April 1999; or **Report Prepared for the Round Table Meeting on Trade Related Assistance**, MCIT, 2000.

quality of rail and road transport. The poor state of the road and rail infrastructure is thus a serious impediment to the smooth transportation of inputs and finished goods. Zambia is competing in the world economy with countries where firms can rely on goods arriving on schedule, and where deliveries of outward shipments to buyers can be reliably expected to meet schedules.

513 Areas are endowed with abundant raw materials or good agricultural conditions that could otherwise be tapped for production of export products. However, due to poor road and rail infrastructure, the areas are inaccessible and therefore remain undeveloped. Even along the line of rail, poor management of resources and a lack of market orientation exacerbate the problem posed by the degraded physical assets.

514 Many areas of tourist interest are only accessible six months out of the year; a nine-month season would be feasible with all-weather roads. These three months could make the difference between a loss-making and a profitable investment. It would also generate more foreign exchange earnings for the country each year from this activity.

515 Some exporters have complained about difficulties in obtaining landing rights for charter carriers of perishable products for export.

516 The inland water ports that could assist Zambian exporters in regional markets are not adequate. Mpulungu harbour on Lake Tanganyika has the potential to become a cost-effective alternative route for exporters to the great lake countries such as Tanzania, Congo, and Burundi. The harbour is constrained by shortage of equipment, inability to handle containers due to lack of equipment and lack of communications access with the barges due to dock at the harbour.

517 Telecommunication service is expensive and of very poor quality. While private investment in cellular services has helped, quality and coverage are poor, and air-time charges have been very high despite the presence of three competitors. When it takes two or three days for an overseas customer to get a call through to his Zambian supplier, he will become discouraged and look elsewhere if he can. Internet services are available, but limited because of the inadequate state of the network. Exporters in most countries of the world are increasingly relying on good internet access as an important competitive tool. Despite the tremendous burden inadequate telecommunications places on agriculture, tourism, indeed all sectors of the economy, movement toward privatising ZAMTEL has lagged behind schedule.

518 Electrical power is expensive, unreliable at times, and not available in many areas of the country. Again, despite the critical constraint this places on exports and economic development, the Zambian government does not have a sense of urgency in attracting private capital and management to ZESCO, and the government's timetable for action has not been met.

Inadequate Government Services

519 Zambian government services of crucial importance to investors and exporters tend to be very inefficient (although many Zambians would rate the Zambian Revenue Authority highly effective). The impact of this problem on the national scale can be

breathtaking. The delays in privatisation of ZCCM, which have been attributed to a combination of poor advice from vested interests and outright corruption, are estimated to have cost the country over US$1 billion in continued operating losses, and foregone sales revenues from the Kafue consortium.

520 The list of other problems caused by ineffective government services is long. Work permits for key investments take a long time. Air service permits are only available to those businessmen with the right connections. Obtaining land use permits takes too long for legitimate investments, and can be fast tracked for other investors in more dubious circumstances. Border crossings take an unnecessarily long time. Even very influential investors have great difficulty in getting necessary approvals.

521 Imports which do not meet the SADC or COMESA rules of origin are allowed in the country duty free, creating unfair competition for local industry. All of these add up to higher costs and higher risks for companies that export.

522 Quality assurance, sanitary, and phytosanitary standards are also difficult to meet in Zambia. The Zambia Bureau of Standards (ZABS), the statutory body responsible for certification standards, is not able to provide businesses with adequate testing and certification services, and there are few alternatives to ZABS at present. Zambia is not able to exploit certain markets because they are unable to meet sanitary and phytosanitary (SPS) standards on agro-processed products. Means to involve the private sector in testing need to be explored.

523 There has been much donor interest in assisting ZABS capability to provide standards development, certification, testing services. Any such assistance should be carefully thought through, as ZABS has serious structural weaknesses that may preclude it from using additional resources. Furthermore, alternatives such as adopting South African or Zimbabwean standards instead of developing home-grown standards, and the use of private laboratories for testing and certification should also be explored. Finally, it should be emphasized, however, that SPS issues was not reported by the private sector as the most important constraint to expansion of the agricultural sector.

524 The line economic ministries in Zambia should be in the forefront of promoting economic development in their sectors, but have not been able to execute their responsibilities. The key economic ministries include MCIT, but also the Ministry of Mines and Minerals Development, the Ministry of Agriculture, Food, and Fisheries, and the Ministry of Tourism. The government has a program underway, supported by a World Bank loan, to build the capacity of the public sector. This may improve effectiveness over the medium term.

A taxation structure that discourages export orientation

525 There are several aspects of government policy that discourage exports, including tariff escalation, lack of an effective duty drawback system for imported inputs for exports, and selective subsidies. Escalation in the current tariff structure biases incentives away from exports and toward import substitution. Tariffs in Zambia are usually lower for intermediate goods and raw materials than for finished goods. This creates large rates of effective protection for some industries, and tends to make

import substitution a more profitable use of investment resources than exporting.

526 A related issue is duty-drawback. One means of assuring exporters of a "level-playing field" with their competitors in other countries is to enable them to acquire inputs at world prices. In Zambia, mechanisms have been established to achieve this, including duty-drawback, VAT rebates for inputs into zero-rated VAT production (such as agricultural produce), deferral of VAT payment for inputs until outputs are sold, and in-bond warehousing schemes. However, administration of these arrangements is very slow and cumbersome. Duty drawback essentially is not available to most firms. The VAT reclaim system is so slow (6 months instead of 30 days) that financing costs plus devaluation (VAT rebates are denominated in kwacha) erode much of the real value of the rebate. At present, the backlog of VAT refunds held by Treasury is estimated to run into the billions of kwacha. As a consequence, although these systems exist in a formal sense, they do not provide real benefits to Zambian exporters. Despite much discussion over the past 10 years, concrete action to develop an export-processing regime is only now underway.

Inability to meet quality requirements

527 Many Zambian producers are not aware of the quality requirements imposed by the market and government regulations in overseas markets. This lack of awareness means that they are not able to produce to meet these quality requirements. Producer associations and commodity brokers are usually the best means for transferring such knowledge to producers.

528 It is also true that Zambia lacks world-class testing and certification capabilities. Although this is not a serious constraint at present, it will become a more serious impediment if standards institutions do not develop with market demand.

Market Access Constraints

529 Market access is a significant problem for Zambian producers, though access problems are not so severe to preclude the start of rapid export growth discussed earlier. Nevertheless, they must be addressed to provide Zambian exporters with a level playing field and to ensure long-term growth.

530 Overseas, perhaps the most important market access constraint relates to the limitations on agricultural products imposed by developed countries. Many developed-country members of WTO place quantitative restrictions on agricultural imports, or subsidise their domestic producers so that the playing field is not level. Only in those product areas and or times of year where domestic farmers are not threatened are agricultural imports to developed countries relatively unrestricted. To a country such as Zambia, with a large comparative advantage in agriculture, this is a serious handicap.

Non-Tariff Barriers

531 Non-Tariff Barriers have mainly affected exports in the agriculture sector. The barriers have taken the form of import permits, notably for Zimbabwe and South Africa. The procedures for getting import permits for some products in both markets

are lengthy and cumbersome, rendering the export of these products uncompetitive. Zambian firms also cite the EU's complex phytosanitary standards for animal products as a barrier to further exports.

532 Foreign exchange restrictions, which still exist in some countries, form a barrier to trade. Importers in Zimbabwe, for example, must queue for foreign exchange allocations, and therefore through no fault of their own are often late making payments to Zambian exporters who have provided them credit.

533 Some Zambian exports on the regional market are subjected to unfair competition from exports from other neighbouring countries that have export subsidy programs and export credit mechanisms. Such measures result in Zambianexports being uncompetitive on price or credit terms. In principle, recourse to WTO rules is a means for addressing such problems, but this process may be long and time-consuming in relation to the benefits obtained.

Tariff Barriers

534 Zambian products have faced high protective tariffs in the South African market. Quota requirements in South Africa are a barrier to Zambian exports. South Africa has adopted a policy of protecting some of its sectors from liberalization even under regional arrangements making it impossible to export to South Africa. Some of the sectors being protected are among the sectors in which Zambia has some comparative advantage and export potential -- e.g., textiles and sugar. While the SADC and COMESA agreements will reduce this constraint in principle, it remains unclear how large the improvement will be in practice.

Poor Neighbourhood

535 Zambia is unlucky enough to be located in on of the poorer and less stable neighbourhoods in the world, and therefore the potential for trade is very limited. Zambia, classified an LDC, has three neighbours even poorer: Tanzania, Mozambique, and Malawi. While Angola and DRC have immense resources and potential, their economies are wracked by civil war. The once promising Zimbabwean economy is spiralling downward. Only Botswana, with a tiny population and market, can be said to have both a reasonably stable economy and political situation.

Compliance With and Participation in the Multilateral Trading System

536 Zambia has endeavoured to implement, to the extent possible, its undertakings within the schedule laid out for LDCs in the Uruguay Round of Multilateral Trade Agreements. It is in compliance with its obligations for the year 2000, but still needs to make legislative and regulatory changes to comply with future obligations on intellectual property. Nevertheless, Zambia's limited financial and technical resources

do limit its capacity to fully implement multilateral trading rules.

537 Although implementation of WTO obligations cuts across different government institutions, in-depth knowledge and understanding of the WTO agreements by government officials is limited to a few officers found mostly at MCTI. Zambia's representative in Geneva has done an excellent job considering the minimal support he is able to receive from home. The private sector has very little understanding of the WTO agreements. Seminars have been held in Lusaka to familiarise the private sector on the impact of WTO agreements, but there is a general lack of analytical capacity when preparing for trade negotiations. Consequently, Zambia has little capacity to negotiate commitments by others.

538 Zambia's capacity to negotiate is also lacking because the issues being discussed are not fully understood in terms of their implications on trade for Zambia commodities. The ability to negotiate could be enhanced through proper analysis based on updated information and data. A reliable, accessible, updated database from which data can be extracted when preparing for negotiations does not exist.

539 Positive use by Zambia of the WTO presents serious problems. Use of the WTO in this respect is a costly enterprise, requiring specialised expertise, the ability to staff a mission in Geneva and to finance frequent travel there. Filing complaints about unfair trade practices of other countries is not a simple process, and substantial follow-up is likely to be required. Consequently, one of the difficult tasks for trade policymakers will be to continually make difficult choices about which issues the government can actually take on.

Trade Promotion and Trade Support Institutions Constraints

540 The Ministry of Commerce, Trade and Industry and its statutory bodies have the major responsibility for general trade promotion and support. The Ministry has very limited capacity to manage these issues, due to its limited human and other resources. This is true as well – to a greater or lesser degree – for other line ministries with trade and economic development responsibilities, including MAFF, MMMD, and MOT.

541 MCTI has Trade and Investment Promotion Officers distributed in three countries: Switzerland, Belgium, and Namibia. None of these countries was among the five largest markets for Zambian exports in 1999, though the Brussels and Geneva offices serve important policy, rather than trade-promotion roles. The purposes of the overseas offices need to be analysed. At present, the officers are hampered by inadequate training, resources and other support from Lusaka.

542 Civil service capability is a government-wide problem, due to matters beyond the control of any one Ministry – e.g., extremely low government salary levels, inadequate management of resources, and AIDS. This is not susceptible to solution in the near term. In the near term, MCTI will have to depend on a small number of dedicated and over-worked individuals. Only gradually, as government salaries are restored to reasonable levels, will the Ministry be able to deepen its capabilities by attracting and retaining an adequate compliment of qualified professionals, and

providing them with the resources they need to do the job.

543 The statutory bodies under MCTI have greater flexibility because they operate outside the constraints imposed on government ministries. They have greater budgetary autonomy, and more capacity to pay adequate salaries for required expertise. Nevertheless, funding for export promotion has declined significantly in recent years, and the capacity of EBZ in particular has been significantly reduced. The EBZ, in addition, tends to focus on exports of goods, to the exclusion of services. The annual exporter audit undertaken by EBZ provides valuable insights into the policy constraints facing exporters.

544 ZIC is responsible for investment promotion with an emphasis on export-oriented projects. ZIC had some successes in its earlier days, but its effectiveness appears to have declined, despite significant donor assistance.

545 The Zambia National Tourist Board (ZNTB, under the Ministry of Tourism) promotes tourism through generic destination marketing. The capacity of ZNTB has also decreased over time because of its position as a subsidiary body of the line ministry, and decreasing funding levels.

546 The private sector associations such as ZACCI, ZEGA, ZTC are also involved in trade and export promotion activities on behalf of their members. Their results are mixed; ZEGA has quite successfully used donor assistance to assist its members, ZACCI less successfully perhaps because its mandate is necessarily much broader. In any event private sector association's efforts tend to be more cost-effective, focused and results-oriented than the statutory and ministerial bodies, but they are also handicapped by a lack of resources, and their efforts would be reinforced by better performance from the public sector.

Marketing A Country

For the trade strategy to succeed, Zambia needs to position itself properly. It has the basic material to market itself as a special kind of African country. Its peaceful and democratic tradition and its pleasant climate are far different from the idea that the name Zambia, or any other African country, evokes in the mind of the average businessman in developed countries. Zambia offers a stable and friendly environment for foreign investors and buyers of Zambian goods, but most people are not aware of this fact.

This situation is difficult, but it can be overcome. Costa Rica shows how it can be done. In 1982, Costa Rica began an economic reform program aimed at diversifying its exports away from coffee and bananas (then 75% of exports) and attracting foreign investment. To many people abroad, Costa Rica was just one of the six "banana republics" in Central America. In the early 1980s, most of the news of Central America was about guerrilla fighting and civil war. Costa Rica's peaceful and democratic tradition made it exceptional in its region, but most potential business partners were unaware of this. Within fifteen years, Costa Rica had entirely succeeded. It had attracted hundreds of foreign investors, who brought a wide range of new technology to the country. In some cases – as with export of melons and pineapples to the United States, which has grown from under $1 million to over $100 million in two decades – foreign investors played an initial catalytic role, but Costa Rican-owned firms gradually acquired the necessary skills, and have acquired a steadily-increasing share of the total. The crowning achievement of the investment promotion has been a $500 million Intel chip fabrication plant, which has attracted other computer-related investments. In tourism, Costa Rica has far outdistanced its Central American neighbours, despite fewer apparent natural attractions.

A significant part of this success traces to the unremitting efforts of the Costa Rican government to market the country – both for tourists and for foreign investors – as a special place. Advertising of the country abroad was of high quality. The investment promotion center used articulate, knowledgeable (and bilingual) guides to show potential foreign investors around the country.

Zambia has yet to begin such a process. Tourism advertising abroad has not differentiated Zambia as a destination. The three Zambian government promotion agencies, ZNTB, ZIC and EBZ, do not suggest that Zambia is special. The ZIC web page, the "front door" of the country for potential foreign investors is only marginally satisfactory, while the EBZ web page inadvertently conveys a negative message about Zambia, with outdated statistics and obvious inconsistencies in the data it provides.

VI. EXISTING TRADE-RELATED PROJECTS

601 Donor assistance to Zambia for trade-related activities is extensive. The most notable donors and their major activities relating to trade are mentioned below. Not included are numerous other donor projects relevant for trade, such as structural adjustment loans, and projects that finance infrastructure or sector development.

- The **World Bank** has provided $45 million for on-lending activities, including $10 million for export financing, and $2.5 million for a matching grant scheme for exporters;

- **GTZ** has provided a long-term advisor to the MCTI for the past seven years, and has proposed a new program to support export promotion both in government and the private sector;

- **USAID** has recently begun a project providing three long-term advisors on trade to support both the MCTI and private exporter associations, as well as to provide short-term experts as needed. USAID also provides support for COMESA and its members, including Zambia;

- The **European Union** has developed a new project (30 million Euros for credit to exporters and 9 million Euros for technical assistance and training) to build supply capacity in exporting firms in selected sectors with high export potential, and to provide credit to exporters. This is a follow-on to an earlier project through the EBZ. The EU has also been supporting the efforts of SADC to promote regional integration in Southern Africa; and

- **Sweden, Ireland, the Netherlands, Norway, UNDP**, and **UNCTAD** all provide advisory services or funding for training of Zambians in trade-related areas.

602 Any inventory inevitably is only a very crude representation of what donors are actually doing in the sector. This is for several reasons. First, donor projects often have a multi-sector focus. A credit project may support both exporters and non-exporters. Second, donors provide substantial funding through regional operations, where allocations to a particular country can only be determined after the fact, or through regional institutions such as COMESA or SADC. Further, the multi-year nature of most donor activities makes identification of the level of assistance being provided on an annual basis difficult to obtain.

603 A more useful approach is to analyse the adequacy of donor activities in relation to the in-country situation. Are donors failing to recognise opportunities for high-impact projects? Or are there too few projects, with donors competing with each other to fund them? As a general rule, neither condition prevails in Zambia. There appears to be no shortage of donor funding for promising activities, and donors have actively sought opportunities in this area. Donors also appear to be responsive when Zambians identify new needs.

604 There is reasonable sharing of information among those donors resident in

Zambia of assistance strategies and programs. Nevertheless, each donor has its own approach, its own procedural and documentation requirements, and its own demands on the limited time of Zambian officials. This can pose a substantial burden on Zambian government agencies, and has reduced the effectiveness of the assistance. There is an insufficient effort to understand and respond to the real needs of the recipients of this assistance in their difficult working circumstances.

605 Further improvements in the quality of donor assistance could be achieved through more frequent meetings among stakeholders in Zambia. This is the key role that an Integrated Framework process – expanded to include bilateral donors – can play. The extensive program of technical assistance and training on trade requires constant dialogue and information exchange among participants. In some areas, it is possible that the assistance provided exceeds Zambian absorptive capacity: donors are trying to provide more specialised technical advice and training than Zambian government institutions are able to absorb.

606 The frequency with which donors sponsor travel by Zambian officials to conferences on trade-related issues may also show a lack of selectivity. Frequent travel to conferences can interfere with day-to-day operations of Zambian government departments, yet the perquisites and financial benefits to the Zambian participants (who are severely underpaid) make them attractive. This is the case even when the quality of the conference presentations reflects careful analysis of the needs of the participants – which is too seldom the case. More frequently, donors assist LDCs by offering conferences and workshops that are inappropriate for a large fraction of the intended beneficiaries.

607 Indeed, at times, well-intentioned donor assistance seems to be part of the problem rather than part of the solution. Donor-funded conferences and invitational travel create opportunities for additional remuneration for underpaid government officials. Given the fact that half of the professional foreign trade positions in the MCTI are vacant, and some travel is important to ministry activities, donor funding for conferences of uncertain value can be a distraction from management of the Ministry's core functions.

VII. STRATEGY TO ADDRESS CONSTRAINTS TO EXPORTS

701 The analysis of constraints to Zambian exports in Chapter V is only the beginning of a process to develop a strategy for promoting exports. Addressing these problems will require government policy action. Such action can only happen after a process of analysis, discussion, and political debate – requiring expenditure of the scarce time and energy of government policymakers.

702 Many decisions will harm powerful interests, and can only be implemented if the government is willing and able to override such opposition. These considerations mean that decision-making capacity is a scarce resource, which should only be used for actions where the payoff is significant and immediate. Success will breed confidence and generate political capital, and over time the ability to take decisions where payoffs are not immediate, but still very significant.

703 Most of the problems also require government budgetary outlays, or the short-term sacrifice of government revenues. Government revenues are very scarce at the present, but should become less so as the economy revives and increased revenues begin to flow into the government treasury.

704 The fundamental need is for political commitment and action to increase exports, at the highest levels of government. This commitment is required for the government to have – and use – the political capital required to make difficult decisions.

705 Project activities funded by donors can help to build this commitment, and some ideas are presented below. Ultimately, this commitment will be achieved only by the persistent and skillful efforts from influential members of civil society in Zambia. Political commitment will lead directly to a process to be established to address the evolving needs of the country. This process will unleash the private sector and the government to work with a sense of urgency and purpose, together with donors, to address opportunities as they arise. The ultimate structure of this process is secondary to the strength of the political commitment behind it, and the strength of the private sector that supports it.

706 At the same time, efforts to alleviate the other constraints facing Zambian exporters should be pursued. Not all of the constraints can or should be addressed at the same time; those constraints that are most important in retarding Zambia's exports must be addressed first.

707 As a general starting point, it may be helpful to put the problems that have been identified into three categories:

- ? ? Category 1: problems that must be addressed immediately, or in the next 1-2 years, in order for the export strategy to succeed;

- ? ? Category 2 – problems that are not critical constraints, but that are likely to be bottlenecks to the continued growth of exports and to trade policy in a 3-5 year time horizon; and

- ? ? Category 3 – problems whose resolution is desirable in the longer term, but are not crucial or affordable in the near future.

708 It is not the place of this report to make detailed recommendations on priorities. This must be done by Zambian-based stakeholders. However, for several specific cases, we suggest how we would prioritize their implementation.

709 Transport costs and reliability are important for the profitability of all exports, so much early effort is needed to assure that they are reduced as much as possible. Key actions such as concessioning of the railroad, or actions to minimise delays on Zambia's side of its borders, need to be addressed immediately. (Cooperation by Zambia's neighbors is necessary to address delays on the other side of Zambia's borders.) This is a Category 1 problem.

710 The MCTI has important policy and implementation responsibilities relating to the export push. Government salary scales at present make it difficult for the Ministry to hire and retain the specialised skills needed. This condition can change only gradually. Thus, a two-pronged approach is needed. In the immediate future, donor-provided technical assistance and contract employees can be used to fill the gap. Later, as government salary problems are addressed, the permanent staff of the Ministry can be built up. This includes both category 1 and category 2 responses.

711 The Zambia Bureau of Standards (ZABS) could be an important institution in the long run, but is not of immediate importance to increased exports. Private testing and certification laboratories can be an adequate substitute for the present. Thus, restructuring and possibly funding for upgrading ZABS's capabilities should await a time when resources are more plentiful. A Category 3 problem.

712 Once the Zambian policymakers and stakeholders have developed a general strategic approach to the sequencing of trade-related activities, they will be in a position to work with donor agencies to develop an appropriate set of assistance activities.

713 The rest of this chapter identifies the principal trade-related issues in Zambia flowing from the earlier sections of the paper, together with the specific type of action needed to address it. Paragraph numbers identify the place in the report where the problem is discussed.

1) LACK OF POLITICAL COMMITMENT TO EXPORT-LED GROWTH [Paragraphs 503-505]

This problem is part perception – there aren't enough solid facts about how exports benefit all Zambians, and the known facts are not widely publicised. The other part of the problem is reality – not enough is done to make sure that the benefits from export-led economic growth reach all Zambians. When senior-level politicians are convinced of the reality of the current linkages, and see the potential for further linkages, then action will follow, and technical assistance activities alleviating technical constraints will have much more impact. Appropriate approaches include:

- **Identification and quantification of the importance of export growth to poverty reduction.** A programme of studies should clearly identify the links between export growth, economic growth, and poverty reduction. The results of this set of studies should be widely publicised through conferences, seminars, publications, radio and TV shows, and pamphlets. Both government and private sector associations should be encouraged to adapt and adopt the results in their own activities and publications.

- **Study tours to mature exporting countries** that demonstrate how indigenous firms followed the lead of foreign investors and ethnic minorities into the export sector. Good examples include Costa Rica, Guatemala, Mauritius, and Malaysia.

- **Incentives to link exporters with the local economy,** particularly but not exclusively SMEs and small-scale farmers**.** Excellent work is being done or being planned in the horticultural, tourism, and gemstone sectors[4]. A combination of technical assistance and financing is giving thousands of small-scale growers and enterprises the opportunity to export indirectly through larger establishments with market know-how and economies of scale. These activities could be greatly expanded.

- **Reduced barriers to direct SME participation in cross-border trade**. Cross border trade, rarely recorded, provides a livelihood to thousands of SMEs and their families, and offers an outlet to thousands more small-scale farmers and producers. Organisations like the Cross-Border Traders Association have made many useful suggestions as to how this can be accomplished.

2) **LACK OF MARKET ORIENTATION** [Paragraph 508].

There are three main approaches to address this problem: technical assistance to firms, facilitating buyer/supplier linkages, and direct foreign investment.[5]

- **Technical Assistance** should be provided in the form of cost-sharing grants,

[4] Specific projects now underway include USAID's ZATAC project, the EU gemstone program, and the IESC Livingstone tourism linkage project.

[5] Each has advantages and limitations. Donor-funded technical assistance is cheapest for the firm, but is frequently misdirected or of low quality. Linkages with foreign buyers or suppliers have proven powerful tools for upgrading quality and productivity, but involve substantial search costs for the firm. Direct foreign investment typically brings technology and knowledge of foreign markets to the country, but may be slower in transferring such skills to domestic entrepreneurs.

directly to individual firms, of internal quality and productivity improvements and authorised export market development costs. Funds should be channelled through private sector associations such as ZEGA or ZTC, with oversight and guidance from EBZ to ensure fairness and access to new players.

- **Buyer/Seller Linkages** should be encouraged through cost sharing grants both to the Zambian seller and the overseas potential buyer, and possibly through well-organised buyer/seller meetings by sectors of interest. Improvement in Zambia's image abroad can also help generate spontaneous foreign buyer interest. EBZ and the sector associations should both be involved.

- **Foreign Investment** often emerges out of the relationships established in the previous two activities, but also should be facilitated by support to ZIC. Again, matching grants, channelled through ZIC, can bring together serious potential investors with potential local partners.

3) MACRO-ECONOMIC AND OTHER POLICY INSTABILITY AND INADEQUATE TRANSPORT, ENERGY, AND TELECOMMUNICATIONS INFRASTRUCTURE [Paragraphs 509-518]

These areas are important for Zambia's future, but have been addressed through World Bank and IMF stabilisation and structural adjustment programmes. The World Bank also is the major provider of project loans for infrastructure. Political commitment to these reforms has been missing.

4) LACK OF EMPHASIS ON TRADE IN MACRO AND SECTORAL DEVELOPMENT PLANNING AND COORDINATION. [Paragraph 413]

Technical assistance to "mainstream" trade into the PRSP process and other Zambian government policy formulation. This is needed in the very near term to help assure that the importance of trade for Zambia's future growth and poverty reduction is properly factored into Zambian development strategies and donor assistance programs. It will also promote mainstreaming of assistance for trade capacity building.

5) INADEQUATE GOVERNMENT SERVICES [Paragraphs 519-524]

The World Bank Public Sector Capacity Building project is an example of a project that will work towards the longer-term solution of inadequate government services. In the meantime, more critical trade-related functions will need to be performed using alternative approaches. The possible options include:

- **"Projectisation" of certain ministry functions**, such as the analysis and negotiation of trade protocols. Core ministry staff would work side by side with outside professionals to ensure that they are responsive to government needs.

- **Self-regulation** of the private sector in certain areas, using trade associations as implementing agencies. Clear guidelines would be set, and the private sector notified that abuses would not be tolerated, and would require the return of government controls. For example, the Ministry of Tourism could delegate ZTC to issue licenses required for tour operators. Government oversight would ensure that the trade associations are abiding by principles of honesty and fair play.

- **Cost-sharing of certain capital expenditures**, such as rural roads in commercial farming areas, where local farming associations can best decide what road needs to be graded when, and can afford to cover some of the costs, but require government assistance as well.

- **Conversion of trade promotion statutory bodies into private limited companies, or some of their functions handed over to trade associations.** This would ensure their focus their attention on pressing problems, ensure private sector ownership, and facilitate greater cost-sharing from the private sector. ZNTB could be merged with ZTC; and ZIC and EBZ could be transformed into ZIC, Ltd. and EBZ, Ltd. Government and donor oversight would still be required to ensure equal access to services and fair play.

6) COST OF COMPLIANCE WITH AND PARTICIPATION IN WORLD TRADING SYSTEM [Paragraphs 533-536]

The MCTI is not in a position to meet all of its mandated responsibilities in the trade field. Possible approaches to addressing shortfalls include:

- **Regional support for specialised WTO needs.** With donor support, regional facilities, perhaps under COMESA or SADC, could provide support to the less-developed members of these communities on demand.

- **Donor Support for Zambian WTO Capacity.** Donor funding could be pooled to provide Zambia and the other least developed countries with access to technical support based in Geneva, perhaps at a special office of the WTO. The politically sensitive area of agricultural protection should be the highest priority.

- **Analyse Zambian current commitments and economic interests from RTAs and WTO.** Some careful analysis of what is required under current commitments, and the expected benefits, would be useful in supporting longer-term Zambian government policy and private sector planning about the implications of these agreements, including appropriate external tariffs on non-members.

7) BURDEN ON ZAMBIAN GOVERNMENT OF NUMEROUS DONOR PROGRAMMES. [Paragraphs 605-608]

Improve donor co-ordination through an enhanced Integrated Framework. The Integrated Framework needs to be streamlined, provided with guidance from technical specialists, enjoy the full participation of bilateral and non-IF multilateral agencies, and local stakeholders. Quarterly IF meetings would be held to update other members on progress, minimise if not eliminate programme redundancies, suggest means of reducing burden on government counterparts, introduce new program ideas, and discuss constraints.

8) TAXATION SYSTEM THAT DISCOURAGES EXPORT PRODUCTION [Paragraphs 523-524]

Study means to improve the system of duty drawback and other alternatives for reducing taxation of inputs to exporters. In the context of the above study, this should be addressed in order to put Zambian exporters (and indirect exporters), on an even footing with their competitors in other countries.

9) **INABILITY TO MEET QUALITY AND STANDARDS REQUIREMENTS OF EXPORT MARKETS** [Paragraph 525]

The general exporter matching grant program described earlier will give individual firms the opportunity to find out what quality standards are required and how to meet those requirements. In addition:

?? **Trade Associations should be supported** to keep better market and quality information for their members, and to explore investing in testing or standardization capabilities themselves**.**

?? **ZABS should be provided assistance to**: 1) Identify the most attractive revenue generating alternatives; 2) restructure to become limited liability company; and 3) be subsidised by the government for providing socially required activities that cannot pay for themselves.

?? **Private firms** should be encouraged to provide quality control, testing and certification to enable Zambian firms to meet international standards.

10) **RESTRUCTURING OF TRADE-RELATED INSTITUTIONS** [Paragraphs 537-542]

Finally, a comment should be made about a proposed restructuring of trade-related agencies. There has been considerable discussion in Zambia of a proposal, promoted in particular by GTZ, of combining the ZIC, the EBZ, and the ZPA into a single entity, the Zambian Development Agency. The agency would also have broad responsibility for long-term development issues. In principle, this would achieve efficiencies by bringing together organisations with related responsibilities, and provide a more coherent policy and institutional framework for trade and investment policy.

The experience elsewhere would suggest some caution in making such a change. The most important is that restructuring of institutions is not a substitute for policy coherence. Restructuring provides large benefits only when done in the context of much higher government priority for the activities being undertaken. In the absence of such a commitment, the lengthy process of discussing the proper modality for combining different organisations is likely to reduce effectiveness of each in the interim. The two functions of export promotion and investment promotion are operationally distinct enough that their inclusion in a single institution does not appear to bring large economies. There are successful cases where the two functions are combined in one institution, but equally successful ones where they operate separately.

Annex A

Organisations Consulted

Government Ministries:

Cabinet Office
Ministry of Agriculture, Food, and Fisheries
Ministry of Commerce, Trade and Industry
Ministry of Finance and Economic Development
Ministry of Mines
Ministry of Tourism

Statutory Bodies/Parastatals:

Export Board of Zambia
Zambia Bureau of Standards
Zambia Electrical Supply Corporation
Zambia Investment Centre
Zambia National Tourist Board
Zambia Privatisation Agency
Zambia Railways
Zambia Wildlife Authority

Private Sector Organisations:

Agricultural Consultative Forum
Chamber of Mines
Commercial Farmers Union
Cross Border Traders Association
Kitwe Chamber of Commerce
National Economic Advisory Council
Ndola Chamber of Commerce
Standards Association of Zimbabwe
Zambia Association of Clambers of Commerce and Industry
Zambia Association of Manufacturers
Zambia Export Growers Association
Zambia National Farmers Union
Zambia Tourist Council
Zambia Wildlife Producers Association
Zimtrade

Private Firms and NGOs:

Anglovaal Mining/AvMin
Associated Printers
Barclays Bank of Zambia
Business Council
Chambeshi Metals
Chilanga Cement

Private Firms and NGOs (continued):

Chilongozi Safaris
CLUSA (Cooperative League of the USA)
Conservation Farming Unit
Copperbelt Energy Corporation
Farmers' Friend
Grant Thornton
Holiday Inn Lusaka
International Executive Service Corps
Kariba Minerals
Kazuma Plastics
Konkola Copper Mines
Magande Associates
Mpongwe Development Corporation
Northern Dairies
Noyi Bazi Farm
Perway Industries
Phelps Dodge
Sulmach
Sun International
SWARP
Ultimate Consultants
Voyagers Travel
Zambili d'Afrique
ZAMTIE
ZATAC

Bilateral Donors:

Commonwealth Development Corporation
European Union
Germany Technical Services
Swedish International Development Agency
United States Agency for International Development
UK Department for International Development -- Harare

Intergovernmental Organisations:

COMESA
Food and Agricultural Organisation
International Finance Corporation
International Monetary Fund
International Trade Centre
United Nations Conference on Trade and Development
United Nations Development Programme
World Bank
World Trade Organisation

Annex B

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ANNEX C

ZAMBIAN EXPORTS AND THEIR IMPACT, 1964-2010

Zambian Exports 1964-2000

During the first quarter century after Independence, Zambian exports consisted almost entirely of copper. Throughout the period, copper always accounted for more than 90% of all commodity exports. With the steady decline of copper production after 1975, together with declining trend for world copper prices, the value of Zambia's exports fell steadily. With it, the country's capacity to import fell correspondingly, and the country entered a long period of declining production and incomes. Borrowing during the 1970s to sustain import levels was a temporary expedient, but a longer-term evil. Since 1980, Zambia's foreign debt burden has been beyond its capacity to service.

Zambia's dependence on the mining sector provided a relatively high standard of living in the early days after independence, but the subsequent dependence on a sector for which both prices and production were declining brought the rest of the Zambian economy down with the mining sector. Efforts during the 1980s to diversify the export base were generally unsuccessful because of the adverse macroeconomic climate and the extensive government regulation of the economy. Nevertheless, special incentives and donor assistance, and favourable rates for air transport to Europe did help to spawn export production of cut flowers and horticultural products for European markets, although the real growth came in the next decade.

The liberalisation of the economy after 1991 was in part an effort to transform the country's economy away from dependence on a single product. Diversification of the country's export base would necessarily be a slow process. Non-metal exports accounted for only $89 million dollars, or 7% of the country's exports, in 1990. Even a doubling or tripling of non-traditional exports would only be the beginning of the road toward elimination of copper's dominance.

Nevertheless, the Zambian government actively encouraged the development of new export products, with very favourable results. Table C-1 summarises the trend in Zambian exports since 1987. Although metal exports have continued to falter, the growth in other exports has been spectacular. Non-traditional exports (in Zambia, everything but metals) have more than tripled over the past decade, rising from $89 million in 1990 to $279 million in 1999.

Rapid growth has been evident over a wide range of products, notably including several sectors in agriculture. These include cut flowers and horticultural products for the European market, processed foods mainly for regional markets, and several categories of primary agricultural products, including cotton, tobacco and sugar sold on world markets. In the manufacturing sector, textiles and building materials have shown the greatest dynamism. Textile exports, mostly in the form of yarns, resulted from large investments in world-class factories during the first half of the 1990s.

The principal markets for Zambia's non-traditional exports have been the European Union (EU) and the members of the Common Market for Eastern and Southern Africa (COMESA). In 1998, each accounted for about 30% of Zambian non-metal exports. Other important markets include South Africa and Japan.

As shown by Table C-1, service exports have been relatively small. Tourism is considered to have great potential, yet has so far remained underdeveloped. Nevertheless, the Zambia Investment Centre (ZIC) has issued certificates for investment in the tourism projects worth US$211 million over the past five years, and the largest of these projects will be completed by mid-2001.

Table C-1

Zambian Exports, 1987-99

(Million U.S. Dollars)

	1987	1990	1995	1996	1997	1998	1999
Metal Exports	784	1,168	1,039	754	809	630	468
Non-Traditional Exports	2	6	18	27	37	53	67
Primary Agriculture	5	15	24	38	91	62	73
Floricultural Products	0	1	14	18	21	33	43
Textiles	6	9	39	40	51	42	37
Processed & Refined Foods	5	6	25	34	31	49	33
Horticultural Products	2	5	4	9	16	21	24
Engineering Products	17	20	39	37	42	32	23
Semi-Precious Stones	8	8	8	11	15	12	14
Building Materials	3	4	5	8	12	9	10
Other Manufactures	0	0	1	1	3	3	7
Petroleum Oils	9	11	11	6	2	7	6
Chemical Products	5	3	2	3	8	7	6
Animal Products	3	2	1	2	3	4	4
Wood Products	0	1	1	2	3	3	3
Leather Products	0	1	2	2	2	3	2
Non-Metallic Minerals	2	2	1	1	1	1	1
Garments	2	3	0	0	0	0	0
Handicrafts	0	0	0	0	0	0	0
Re-exports	0	0	-	4	4	4	3
Scrap Metal	0	0	-	11	6	4	6
Mining	0	0	-	-	4	12	3
Total Non-Traditional	68	89	178	226	315	308	298
Total Commodity Exports	852	1,257	1,217	981	1,123	937	766
Metal Share of Total	92%	93%	85%	77%	72%	67%	61%
Service Exports							
Electricity	9	12	21	16	15	6	6
Tourism	56	61	71	73	75	78	80
Transportation	29	32	37	38	39	40	40
Sub-Total	94	105	129	127	129	124	126
Total Exports	946	1,362	1,346	1,108	1,252	1,061	892

Source: Bank of Zambia and IMF

Although growth until 1997 was extremely rapid, non-traditional exports actually declined slightly between 1997 and 2000. Sharp declines occurred in several categories, including primary agricultural products, processed foods and textiles. Some other categories, notably cut flowers and horticulture continued to grow rapidly. The declines have been attributed to a variety of factors: low international commodity prices on agricultural products such as cotton and coffee; replanting programmes in the floricultural sector; reduced demand in neighbouring countries due to instability; drops in tourist arrivals because of concerns about Zimbabwe's security; reduced demand in Asia caused by the Asian financial crisis; and the fall in value of the currencies of major trading partners against the dollar. These factors have operated, but such factors are always present. They do not explain stagnation after such dynamism.

In an important sense, the stagnation of non-traditional exports between 1997 and 2000 is more puzzling than the rapid growth in the previous eight years. There were no major changes in macroeconomic policy that would have produced this result. The most frequent explanation for such a loss of dynamism is a deterioration of the real exchange rate that makes exporting less profitable. This is not the case for Zambia, at least measured in dollar terms. The real exchange rate for exporters did deteriorate over the 1994-97 period (i.e., the relative profitability of exporting fell), but exports rose sharply during that period.

The real exchange rate improved during 1997-2000, with the depreciation of the nominal exchange rate occurring at a faster rate than the rise in Zambian prices. Zambia's principal trading partners are the EU and South Africa. Both currencies have declined relative to the dollar in the last several years, so it is possible that Zambia may have lost some competitiveness in these markets compared to other exporters. In any event, some of the slowdown in Zambian export earnings may reflect the decline in the Euro and Rand compared to the dollar.

While the broad orientation of macroeconomic policy, with its emphasis on private-sector led economic activity and market-determined prices, has continued, there was nevertheless some deterioration in the quality of the execution of policy after 1997. After a period of steady progress in reducing inflation, monetary policy again became expansive, and inflation rates began to rise. The momentum of the privatisation programme slowed considerably. This policy slow-down negatively influenced expectations of the business community and led to postponement of investments in capacity expansion.

Some light can be shed on the trends by looking at product and market-specific trends. Unfortunately, such data is not yet available for 2000, so the analysis is limited to 1997-99. The analysis of trends by trading partners shows sharp declines in exports to Zimbabwe and India, with exports to each falling by about $20 million. In the case of Zimbabwe, the decline from $35 to $15 million was the result of conditions in Zimbabwe, which have led to a substantial reduction in demand and foreign currency related restrictions on imports. Semi-precious stones are an important export to India. According to most observers, recorded levels of semi-precious stones do not reliably reflect actual export trends.

The two categories of cut flowers and horticultural products continued dynamic growth during 1997-2000, though at a smaller growth rate than earlier. The two categories together grew at an average annual rate of 34% during 1987-1997, and at a still-impressive 22% annual rate in 1997-99. On the other hand, primary agriculture, textiles and engineering products fell sharply after rapid growth to 1997.

While the causes of the recent stagnation of non-traditional exports are not fully understood, it does not appear to have led to any major effort by the government to understand the causes and to take action to address them. On the contrary, there appears to have been a general reduction in the priority given to exports by the Zambian government, with the important exception of the ratification of the COMESA FTA and the SADC Trade Protocol. Funding for the ZIC and the EBZ has declined, a proposal to legalise export-processing zones has languished, and little has been done to address major policy issues of vital importance to exporters.

At high levels of government, a regional trading arrangement with COMESA was given priority, though the consequences of this arrangement for Zambian exports are likely to be modest. The markets of the nearby COMESA partners are small and easily saturated, or are experiencing serious economic difficulties. SADC, of course, does offer considerably greater scope for expansion.

Several conclusions about the capacity of Zambia to export are evident from the past trends. First, it is clear that establishment of an appropriate macroeconomic policy provided investors with the incentives and the confidence to rapidly expand exports. Second, despite oft-expressed concerns regarding market access for agricultural products to European markets, Zambian producers were able find market niches that did permit rapid growth in volumes.

Direct Foreign Investment Trends

Direct Foreign Investment (DFI) has been modest in recent years. Net DFI inflows averaged about US$65 million per year during 1994-98. Macroeconomic instability, the slow pace of privatisation, and poor infrastructure are factors of likely importance. The actual level of foreign investment has also lagged far below investment pledges made to the Zambian Investment Centre. In 1998 and 1999, pledged investment totalled US$1,026 million and US$153 million, respectively. DFI flows have mainly been from South Africa and the United Kingdom, much of it to take over former state enterprises in the privatisation program.

A large share (about 43%) of both pledged and implemented investments has been in services, most notably retail trading. Tourism, particularly in the Victoria Falls area, has also attracted serious investment.

The prospects for mining investment, now that privatisation in this sector has been completed, are staggering. Konkola Copper Mines (KCM) is projecting an additional investment of over US$500 million, for Konkola Deep alone. This figure will be easily matched if not exceeded by the other three active mining houses, especially if the unexploited claims in the western areas of the Copperbelt, such as Kasanji, are developed.

Certain agricultural sectors are also attracting large investment, although for several reasons this is less easy to track through the statistics collected by ZIC. Nonetheless, our discussions show significant investments planned in horticultural, coffee, and other crops.

Future Export Prospects

The analysis of Zambia's need for assistance in promoting Zambian participation in the world economy needs to have some base in potential or possible future trends in exports. A vision of what is possible in five or ten years with appropriate policies is needed in order to motivate action and to channel actions into the most promising directions.

In the consultations for the preparation of this report, businesses, sector associations, government agencies, and independent experts were queried about future export prospects. This information, together with other available statistical sources, was used to make the projections in Table C-2. Table C-2 can be said to represent a composite forecast of future Zambian exports which is not pessimistic, but is by no means drawing from the most optimistic sources. While the basic conditions for this growth are present, it requires that the GRZ implement its own policy decisions and for the private sector to complete its planned and anticipated investment projects. As shown in Table C-2, a ***tripling*** of Zambian exports of goods and services is projected between 1999 and 2010 – from US$997 million to US$3,110 million.[6]

Such a high growth rate needs justification, especially given the recent slowdown and downturn of certain sub-sectors in the past few years. Several factors suggest that it may indeed be possible. First, it should be noted that achievement of the result would require exports to grow at an average rate of over 11% per year. This rate of growth is not unprecedented. Numerous countries in East Asia have had export growth rates exceeding 30% per year for decades. A number of Latin American countries achieved faster growth rates over the past fifteen years, following an equally-long period when exports declined.

[6]Our current statistics vary somewhat from EBZ data because we include estimates of informal, unrecorded trade. Informal trade, however, does not benefit the country as much as formal trade, in terms of taxes and repatriated foreign exchange inflows. There are wildly different estimates of the degree of informal trade. For emeralds, for example, informal exports are estimated at anywhere from $15 to $200 million per year. Studies undertaken by USAID in 1998 and 1999 indicated that as much as 90% of cross-border exports from Zambia are informal (mostly food and gemstones). We have tended to rely on the more conservative estimates of informal trade; i.e., the lower range of estimates for informal trade.

Table C-2

Past and Projected Zambian Export Performance

(Million US Dollars)

	1990 Actual	1999 Actual	2005 Projected	2010 Projected	Annual Growth Rate Actual 1990-1999	Annual Growth Rate Projected 1999-2010
AGRICULTURE						
Horticulture	5	24	55	90	19%	13%
Floriculture	1	43	85	171	52%	13%
Primary Agriculture	15	91	211	340	22%	13%
Animal Products	2	4	9	21	8%	16%
Sub-total	**23**	**162**	**360**	**622**	**24%**	**13%**
MINING						
Metals	1,168	468	981	1,307	-10%	10%
Gemstones	8	45	100	165	21%	13%
Other Metals	-	3	15	35	nm	25%
Other Minerals	-	1	2	4	nm	13%
Sub-total	**1,176**	**517**	**1,098**	**1,511**	**-9%**	**10%**
MANUFACTURES						
Processed Foods	6	41	95	237	24%	17%
Building Materials	4	10	18	24	11%	8%
Chemicals	3	6	5	4	8%	-4%
Engineering Products	20	23	40	55	2%	8%
Garments	3	0	2	4	-20%	23%
Textiles	9	37	86	138	17%	13%
Wood Products	1	3	5	7	13%	8%
Handicrafts	0	2	4	6	29%	11%
Leather Products	1	2	5	10	8%	16%
Petroleum Oils	11	6	10	13	-7%	7%
Scrap Metal	-	6	11	6	nm	0%
Other	-	6	12	19	nm	11%
Sub-total	**58**	**142**	**293**	**523**	**8%**	**13%**
Merchandise Total	1,257	821	1,751	2,656	-5%	11%
SERVICES						
Electricity	12	6	35	140	-7%	33%
Transportation	32	25	44	71	-3%	10%
Tourism	61	80	200	322	3%	13%
Sub-Total	**105**	**111**	**279**	**533**	**1%**	**15%**
Grand Total	**1,362**	**932**	**2,030**	**3,189**	**-3%**	**12%**

Second, Zambian experience suggests that it may be possible. Of the four commodity groupings in Table C-2, exports in one category – agriculture – are projected to grow at a slower rate in the future than the actual growth rate during the past decade. (The final two columns of Table C-2 compare the projected growth rate for 1999-2010 with the actual growth rate for 1990-1999). For manufacturing, we project growth rates higher than recent past but not a dramatic departure given the low base and Zambia's potential. The dramatic departure from the past growth rates is projected to occur in mining and in services. For mining and services except for tourism, the projections represent the results of investments either underway or now being actively considered by firms in the sector, and expected improvements in world copper prices. Tourism investment is also expected to continue at higher rates, but the time horizon for this sub-sector is far shorter, and we cannot say that investments expected past 2004 in the final stages of planning by industry participants.

Third, access to export markets for Zambia will be extended by the implementation of the COMESA FTA, the SADC Trade Protocol, the continuation of EU preferences under the Cotonou Agreement, and even an opening of the US market through the introduction of the African Growth and Opportunity Act (AGOA).

It is reasonable to ask from where these exports will come. Mining, of course, including copper/cobalt, gemstones, and other categories will continue to be the largest sector over the next 10 years. Importantly, mining's share will be much lower than the historic share of over 90%, or even the 60% share it held in 1999. In 2010, the mining sector's share of exports is projected to fall to just under 50%. And fortunately, copper, which will continue to be over 90% of the mining sector, will contribute at high levels to exports for a long time. The Chamber of Mines estimates that production levels of 800,000 MTs/year of copper and cobalt should be reached before 2010 and could continue for 30 to 60 more years. Gemstone exports will continue to increase as well, both from increased production levels, **and** increased value added by processing of lower-cost stones.

Agriculture, which has great promise within and without the region, will show a high rate of growth over the decade (although slower than the previous decade) and end up contributing almost 20% of exports, up from less than 2% in 1990. For markets within the COMESA/SADC region, industry sources believe that cotton, tobacco, meat/poultry/dairy products, soya beans, sunflower, sorghum, groundnuts, paprika, and cassava will continue to attract investment and expansion. For markets in Europe, the Far East, and the USA, coffee, paprika, sugar, game products, cotton, essential oils/spices/herbs, tobacco, softwood timber, floriculture and horticulture, vegetables, certified organic produce, cut flowers, groundnuts, honey products will show continued growth.

Tree nuts (cashew, macadamia), sesame, and fresh fruits show great promise and are being introduced (or re-introduced) on a commercial scale. Indigenous hardwoods such as mahogany and teak have a high export value, but the challenge will be to create the right environment to for sustainable utilisation. Primary processing of agriculture produce; e.g. freezing and dehydration, offer tremendous opportunity to add value over the next 10 years. There is no constraint of prime agricultural land along the lines of rail or major roads, and the supply of reliable electricity and transport services will improve after privatisation of ZESCO and the concessioning of ZR (and with luck, similar approach taken with TAZARA).

Improvements in small-scale farmer yields and marketing will give many of them the competitive edge to participate in the export growth. Finally, there is great potential -- although not quantified in this report -- for market-orientated import substitution in cereals and oil seeds which will supply local industry and improve Zambia's balance of payments.

Services should grow above the average overall growth rate. Tourism is the real engine of growth in this area. The largest tourism investments -- over US$50 million in 2001 for one investment alone – are going in the Victoria Falls area. The

Copperbelt will continue to attract significant new business travel, and safari areas such as Kafue and South Luangwa National Parks will provide the rest of the growth. Arrivals and spend per arrival will grow, as more overseas tourists come, and find a wider variety of attractions. Electricity will rise from an insignificant part of export revenues to more than 5% if anticipated (post-privatization) investments in transmission to Tanzania are undertaken.[7] Finally, railways post-privatization should recapture lost ground and ensure that transport levels contribution to export earnings do not dip below 1990 levels.

The share of manufactures in exports is expected to continue to increase relative to other sectors, moving up to nearly 17% in 2010 from under 5% in 1990. However certain sub-sectors with little local value added and evolved under high protective tariffs – such as chemicals – are likely to shrink in absolute terms. Those companies processing local raw materials, such as copper rods/cables/sheets, processed foods, textiles and wood products are expected to provide the strongest contribution to growth in this sector.

Our high-growth export scenario makes reasonable assumptions, but basically assumes that the Zambian government will implement its own declared policy and that the regional and global politico-economic environment does not worsen. The investment potential would be even greater if conditions in Zambia's "neighbourhood" were improved. With stabilisation in Congo, an end to war in Angola, and a reversal of Zimbabwe's political and economic downward spiral, Zambia's exports could grown even faster, perhaps quadrupling by 2010.

Tripling exports by 2010 would have a profound impact on the Zambian economy and the well-being of the Zambian people. Table C-3 provides rough projections of the impact of increased exports in a few key sectors on key indicators such as tax revenues, employment, and local purchases. These estimates should be refined, broadened to all export sectors, and tested by more rigorous analytical efforts than was possible under the constraints of this report.

Table C-3 shows us that employment levels in the key export sectors would increase sharply, with 314 thousand additional direct jobs by 2010 from agricultural exports, tourism, and mining sectors alone. The overall level of poverty would be expected to decline substantially. Because of the strength of growth in agriculture and tourism, the distribution of this income would be spread widely throughout the country, and not focused only on the urban and peri-urban areas. The number of small scale farmers growing cash crops for export would increase by nearly 70 thousand by 2005, and nearly 230 thousand by 2010, and small-scale farmer earnings from export cash crops would have increased by over US$140 million by 2010. Experience with such growth in other countries suggests that the poverty rate might fall from above 70% of the population in 2000 to less than 50% in 2010.

[7] Electricity is important component of local added value in mining and manufacturing exports.

Exports and Tax Revenues

Zambian earnings from mining, horticulture, and tourism will be enhanced to over $70 million per year in 2005, and rise by nearly $670 million per year by 2010. The potential impact of these additional revenues on the ability to finance social services and infrastructure, and attract more qualified Zambians to government service, is staggering. This boost in revenues will mean that the dependence of Zambia on the IMF/ World Bank and the rest of donor community will sharply diminish. Zambia will no doubt still require external expertise and capital, but the country will be able to attract most of this through foreign investment, and pay for much of the rest from its own tax base. Our estimates of the increase in tax revenues require some explanation.

In the mining sector, there is no question that the large tax concessions granted to the two largest investors (KCM and Mopani[8]) over the next few years, will mean government taxes are less than what they could have been absent tax concessions. According to the estimates of the mining companies themselves, they will save about $32 million from the concessions on import duties and mineral royalties. This is dwarfed, however, by the GRZ gain of about $200 million from the elimination of subsidies to ZCCM. In fact, the Zambian government will move from a loss position of roughly $160 million in 1999 to a positive $30 million in 2005. By 2010, most of the key tax exemptions for KCM and Mopani will expire, and the copper/cobalt mining sector alone will be contributing approximately $600 million in tax revenues[9]. In addition, the Zambian government, as a 10%-20% residual shareholder in all of the privatized mines of ZCCM will enjoy dividend flows roughly estimated at over $XX million per year.

In the tourism sector, there have also been significant tax concessions, first for the Sun International investment, and then the zero-rating of VAT in the Livingstone area proposed for the 2001 budget, and after a two year trial period, perhaps the zero-rating of the tourism industry country-wide. Nonetheless, tourism will still pay corporate, PAYE, and tariff/duties on inputs.

Export-led Creation of Jobs and Incomes for Small-Scale Farmers

Direct job growth from tripling exports will come primarily from agriculture, with much of the growth from dry-land cropped primary agricultural commodities, so that the growth in employment will go beyond just the export horticultural schemes near Lusaka and the line of rail. Tourism jobs will also be created in regions with little industrial or even agricultural potential.

Mining job growth will not be high, despite the huge investments being made, but job growth in industries serving the mining industry such as construction will be significant. In mining there will be a profound change from the 1960s and 1970s, however. Most of the 5,000 highly skilled and well-paid jobs in the Copperbelt could

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[8]Mopani is the local company for the First Quantuum/Glencore group of investors.

[9]Tax revenue estimates include corporate income tax, VAT, duties/tariffs, and employees PAYE).

be filled largely by experienced Zambian technicians working in South Africa, Canada, Australia, and the United States.

Other Benefits of Export Growth – expanded local market and improved infrastructure

Those firms producing for the local market that take are taking positive steps to become competitive and market orientated rather than attempting to survive behind protective barriers will thrive in the coming years. These firms will benefit from the greatly increased purchasing power of other businesses, the GRZ, and ordinary Zambians.

To achieve the tripling of exports requires improvements in infrastructure that will affect the lives of all Zambians. The availability and reliability of electricity, roads, railroads, telecommunications will vastly improve the lives of ordinary Zambians.

Table C-3

Impact of Increased Exports

	2005	2010
Direct Job Creation[10]	110 thousand	314 thousand
Investments in Local Economy[11]	$110 million	$95 million
Annual Tax Revenues[12]	$71 million	$677 million
Additional Small Scale Farmers Growing Export Crops[13]	68 thousand	226 thousand

[10]Horticulture, primary agriculture, tourism, and mining sectors only

[11]Mining and tourism only

[12]Horticulture, mining, and tourism only

[13]Primary agriculture and horticulture only

Export Growth, HIPC, and Level of Debt

When considered together with the scheduled HIPC debt reductions, the forecasted export growth would permit Zambia's long nightmare of unsustainable debt obligations to end. Table C-4 shows three scenarios comparing Zambian debt to its exports. This is a useful way to compare the debt to the country's capacity to pay it off. First, the debt/export ratio is shown without HIPC debt relief. Second, it is shown with HIPC and the "slow" export growth (i.e., the same numbers used in the IMF projections for the HIPC decision point discussion). Third, the debt/export ratio under the high export growth projections made earlier and HIPC debt relief is shown. Under this scenario, Zambian debt falls to only 85% of its export earnings by 2010 – an eminently manageable level of external debt. Without HIPC and fast export growth, it would still be at the unmanageable level of 178% of export earnings in 2010.

Table C-4

Zambian Debt Service, 2000-2010

(US$ Million)

Payment Concept	Actual 2000	Due 2001	Due 2005	Due 2010
Scheduled Payments	386	606	501	289
With Traditional Debt Relief	193	436	434	256
With HIPC Debt Relief		158	202	135

Present Value of Debt as Percent of Exports

Concept	2000	2005	2010
Before HIPC	444	236	178
HIPC + Slow Export Growth	446	140	117
HIPC + Rapid Export Growth	446	125	85

Zambians have an opportunity to realise this vision of export-led economic growth; but must act with urgency.

The political leadership, despite the rhetoric, seems unconvinced of the path of export-led economic growth. Witness the recent signs of a slowing in economic liberalisation, most notably the in the privatisation of ZCCM (which was achieved only after tremendous external pressure), ZAMTEL, ZESCO, and Zambia Railways; and the re-introduction of partial foreign exchange controls.

One means of convincing the political leadership of export-led economic growth is to use every possible opportunity to document and publicise the positive impacts of exports on the economy and poverty reduction. The earlier sections of this chapter were the first steps in a continuing process, but we are suggesting that this is one of highest priority analytical and public relations tasks that can be undertaken by the advocates of economic growth. Gaining broad acceptance of the "export vision" is the key conceptual means for "mainstreaming" trade issues into the country's overall strategy. Without this high-level political determination, the financial resources and technical assistance provided by donors will show little impact.