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EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH
(EAGER)
TRADE REGIMES AND GROWTH
ZAMBIA TRIP REPORT
August 18, 1995

On August 16-18 Daniel Ndlela (Regional Coordinator for the EAGER/Trade project) paid a brief visit to Lusaka. Unlike in the case of the other AIRD Group team visits to initiate a full spectrum of the EAGER/Trade project, the purpose of the Zambia visit was to confer with USAID, the Harvard Institute of International Development (HIID) and Zambian decision makers to identify the initial and urgent topics for investigation under the EAGER project.

TRADE POLICY ISSUES FACING ZAMBIA

The initial discussions with USAID showed that though the Trade sector was not in the priority list of its programs in Zambia, the Mission was interested in working closely with the EAGER/Trade project on a number of trade issues. The Mission is of the opinion that a quick review of some policy trade topics, such as the current impact of tariffs on Zambia's productive sectors would be beneficial to policy makers.

The major trade related issue facing Zambia is its position in the trade liberalization vis a vis other countries in the region especially South Africa and Zimbabwe.

Tentative results of COMESA-CET Study on the analysis of the Effective Protection Rate (EPR) of some Zambian companies shows negative protection, eg. in the fertilizer, ink, plastic goods and paper products. To the extent that Zambian firms are facing competition from imports from COMESA and SACU countries, particularly South Africa, the possibility of negative protection can be significant. This arises from the structure of Zambia's nominal protection which is based on three tariff rates, 20%, 30% and 40% on a cascading basis and the COMESA reduction of 70%.[1] Thus there is the possibility of competing imports from say Zimbabwe, to enter Zambia at a much lower rate than imports from non-COMESA countries. Imports from South Africa also falls into this category.

In the case of Zambia, changes in prices of imported goods as a result in tariff changes would have impact on Government revenues. Twenty-two percent of government revenue is generated by taxes on imports (mainly from import duties and sales tax) and 19%

[1] It is however understood that Zambia has had to reduce the COMESA tariff to 60% to reciprocate with other COMESA member countries.

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is collected by taxes on domestic trade. Zambia's imports from COMESA countries (including South Africa) is over 50% of total imports and these enter under preferential agreements. Duty free imports from COMESA will encourage trade diversion, but it may be that Zambia is already taking as much advantage as possible of benefits under regional trading arrangements.

USAID mission will therefore like to have a "quick response" study on this subject in order to inform policy makers the options available. In a wide ranging discussion between USAID Economist, HIID team and myself, it was however felt that such a "quick response" would be more suitable under the Consulting Assistance for Economic Reform project (Caer) than under EAGER.

TRADE POLICY ISSUES FACING ZAMBIA

In extensive discussions with senior officials of the Ministry of Trade and Commerce, the HIID Team was able to derive a list of potential research topics for Zambia to be considered under the EAGER project:

1. **Competitiveness with SADC region.** Select several industries that are widespread within region, e.g. textiles, maize milling, steel rolling, plastic products. Begin with three countries, e.g. South Africa, Zambia, Zimbabwe. From interview with sample of firms in those industries and countries, attempt to construct measures of relative productivity, such as the efficiency wage (wage cost per unit of output per unit of labor time) or a broader measure of factor productivity, in dollars. Establish means to maintain such measures over time. Once established, expand gradually to include more countries. Could become a comprehensive data base that will indicate levels and changes in competitiveness. This is the kind of data set that policy makers often ask for but seldom have available. This and next two projects could be most effectively in cooperation with researchers from two or more neighboring countries.

2. **Gains from economic integration within Southern Africa.** Regional integration prospects are having a major impact on trade policies. How much is known about the potential benefits and costs of integration? It may be possible to learn a great deal from a relatively simply general equilibrium model of the region, starting e.g. with a two-or-three-economy region, that models a limited category of tradable and non-tradable for each country. The assembly of data for such a model would itself be valuable in understanding the economy of the region and the potential gains from trade. Different approaches--free trade area v. customs union or regional integration v. more liberal trade with the outside world--can be evaluated once the model is built.

3. Zambia's comparative advantage and the cost of ignoring it. In implementing reform policies, the government has tried to be responsive to producers who are disadvantaged by the more open economy. Yet it seems likely that many of those who lobby for more protection are in the most inefficient industries; protecting them is likely to entail large costs and to slow economic growth. Techniques for measuring comparative advantage such as domestic resource cost are well known and easy to apply. It would help policy makers if a data base of such estimates existed for Zambia, as it does, for example, in Kenya. Then it would be clear (1) how much protection would be needed to make an industry viable and (2) the cost to the economy of such protection. In most cases, such a data base could be a telling argument against protection for specific industries and in favor of a more open economy. Such a study should cover a range of products in both agriculture and manufacturing.

4. **Transport costs of Zambia's trade.** As a landlocked country, Zambia needs to be concerned about the costs of its exports and imports, both within and outside the Southern Africa region. One of the most important ways for a government to promote efficient trade and especially its exports is to invest in infrastructure that reduces transactions costs, of which transport is the most important. In planning infrastructure investment, therefore, it would be useful to know the costs of carrying exports to various destinations by various means, focusing on those costs that can be most affected by infrastructure investment.

5. **Regional trade in grain (maize).** Eastern and Southern Africa is a region of highly variable yields in the staple commodity, white maize. Although considerable informal trade exists in maize, much of it is local, cross-border trade. The region's food security would almost certainly be enhanced if there was more open trade in maize and other grains. A study of maize production and trade across the region would be valuable in suggesting the role for more open trade and might be used to estimate the benefits form opening up the market on a regional basis.

In the discussion with HIID, it was felt that a combination of topics 1 and 3 would form the main research topic for Zambia. The second important research topic will be Topic 4 (Transport Costs of Zambia's trade). Efforts to identify researchers are still going on. However, two well qualified researchers would be pursued: Flora Musonda Ph.D, Lecturer in Economics at the University of Zambia, and Sindiso

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Ngwenya, M.Sc (Economics), Senior Transport Economist at the COMESA Secretariat.

FOLLOW - UP

If these initial findings are anything to go by, there might be need for a one week mission to have follow up discussions with the Research Community and Policy makers at a later date. Secondly Dirck Stryker will also confer with Mike Roemer on the options available for EAGER in Zambia.

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