

Zambia

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6. The Poverty Impact of Doha: Zambia

Sajeev K.S. Nair

6.1 Introduction

This report is part of a multi-country study on the poverty impact of Doha Development Agenda (DDA) negotiations in selected countries of Africa, South America and Asia being coordinated by Overseas Development Institute (ODI), UK. The report perhaps could be a pioneer in this field offering a first hand insight into the possible/probable outcomes of the Doha Development Round initiated in 2001 by analysing the key positions and trade and development policies in the project countries vis-à-vis the multilateral trade arrangements under the World Trade Organisation (WTO).

Although the link between trade and poverty reduction is one of the focal point of debate in international forums, this report attempts to address the relevance and importance of WTO instruments vis à vis poverty reduction in the Zambian context. It is perhaps, important to analyse the trade and poverty linkage Zambia given the pace of economic liberalisation, which has taken place ever since 1991. The Zambian experience with liberalisation proved that hand in hand with the restructuring of the economy trade policy reform and privatisation, there is a need to institute measures to diversify the production and export base of the economy.

The linkages between international trade and poverty has been well recognised in the trade policymaking process of the day. Trade potentially affects poverty through its effects on larger market opportunities, economic growth and income distribution. Though the effects of trade on growth have been more firmly established than its impact on income distribution, given that poverty reduction is sensitive to income distribution, this should be significant as well. Therefore, trade policy has been considered as a major tool and target for reducing poverty. Further, pro-poor growth policy will have greater impact on reducing poverty, than growth *per se*.

With high incidence of poverty (73% below poverty line) in Zambia and the current importance given on trade in enhancing economic growth, it is vital that efforts be made to look into the various dimensions of this linkage. The objective is to examine the impact of trade liberalisation on the poor. And, given the present international trade and investment regime, an open and liberalised trade policy is expected to foster economic growth, reduce distortions in domestic markets, and narrow the scope for macro economic imbalance.

Further, it would be worthwhile to gather the views of the stake holders in Zambia, which includes, the business sector, farmers and producers, civil society organizations and government on trade and development matters. It is important that the stakeholders work together for economic development and better living standards of the poor, understand the practical linkage between trade and growth, so that benefits of trade opportunities

provided by the WTO and the regional trade arrangements can be made available to the poor as well as the rich in the society.

Background and context

One fundamental aspect in the study of linkage between trade and poverty is how economic liberalisation, trade policy reform at the multilateral level and increased trade volumes (gained through external market opportunities) reduce poverty. In this light, today, many countries, both the newly industrialised, developing and least developed ones have embarked on policies of trade liberalisation which consist of the removal of domestic and external trade restrictions with the objective of bringing about a convergence of domestic prices towards international prices, with a stronger incentive to trade. The present day trade and investment policy regime of rich as well as poor countries rely on the premise of contestability of markets accompanied by the reduced role of the state in the micro level operational aspects of the economy.

The effects of trade liberalisation on economic growth and income distribution continue to be one of great interest in the present day policy debate. This is more so because economic growth and distribution of income are both two key determinants of poverty. The question is whether there have been corresponding improvements in economic growth; income distribution; and reduction of poverty levels along with liberalisation of trade. Setting aside theoretical insights on the linkage between trade and poverty, it is necessary to look into the ground realities of trade and poverty linkage to the stakeholders to understand this aspect. This is keeping in mind the basic tenets of trade policy, which normally has the objective of enhancing living standards of the citizens whether they are producers, exporters, consumers or importers.

This project intends to carry out an analysis in the Zambian context on how and under what conditions trade liberalization and Doha Development Agenda (DDA) negotiations actuates the reduction of poverty by focusing on the trade prospect of select sectors and agreements. Further, it aims to influence trade policy decision with the objective of reducing poverty through enhanced trade in selected core sectors, which have substantial poverty reduction potential.

In recent years, efforts have been made by Zambia to expand trade at the regional and multilateral level through International Treaties and Regional Integration Agreements. These efforts have had the backing of the WTO, United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), Africa, Caribbean and Pacific–European Union (ACP-EU), etc. One of the motivations behind this phenomenon has been the emerging awareness that with the globalisation of markets, export policies are likely to have more international trade effects. Multilateral trade liberalisation efforts might be effective in countering these cross-border implications where individual governments would fail.

International trade policy has an integral role to play in the promotion of healthy competition in the economy, thereby advancing economic efficiency and consumer welfare. This will not be achieved without sustained programmes to tackle supply side constraints. In this regard, the report also examines the attempts, which have so far been made to expand Zambia's external trade and expand the production base.

The main purpose of the report is to analyse the changes in the trade policy measures at the national, regional and international level so as to create an enabling environment for making markets and economic reforms work for the poor. The other objective is to enable the stakeholders become part of the coordinating workgroups in the various policy initiatives undertaken by the country/government by providing feed back and establishing upward and down ward linkages. The research is based on secondary data analysis, which has the objective of preparing status report and case studies on commodity production and trade of selected commodities and how they are linked to poverty reduction.

6.2 Current state of trade and economic liberalisation in Zambia

Profile of Zambia

Zambia is a land locked country in Southern Africa, which shares common land boarder with eight countries viz. Angola, Botswana, Democratic Republic of Congo, Malawi, Mozambique, Namibia, Tanzania, and Zimbabwe. The geographical area of Zambia spans 752,610 square kilometres. The country until 1991 had huge dependence on copper and cobalt, which accounted for about 70% of total exports revenue. Increasing costs of production and transportation to the main markets in Europe and Asia and the decreasing demand for copper due to technological changes in the economies of traditional buyers have made the copper industry in Zambia less and less competitive. A persistently poor copper export performance over a period of time has caused recurrent balance of payments problems. This has forced the country to adopt economic liberalisation and structural adjustment programmes in 1991. The declining importance of copper can be understood from the falling production figures of about 450,000 tonnes in 1990 to about 3337,743 tones in 2002. The production of cobalt also declined slightly from 4376 tonnes to 3984 tonnes in 2002. The average price of copper per pound was US\$ 1 in 1997 and it declined to 0.70 cents (US\$) in 2002. The prices of Cobalt declined from US\$ 23.5 in 1997 to US\$ 5.62 in 2002¹.

Zambia is a typical example of a Least Developed Country (LDC) with a large dependence on export revenue from a single mineral-copper, whose trade value has fallen substantially where as the country has not diversified much to other sectors. Zambia's land locked status and sharing common border with eight countries in Southern and Eastern Africa gives it both disadvantages and advantages for regional and international trade. However prevailing development bottlenecks, under developed manufacturing and agricultural sector, ineffective business practices and low levels of economic management skills have hindered Zambia from benefiting from its geographical advantage. Of late, Zambia has suffered from brain drain and a progressive deterioration

¹ Republic of Zambia, Economic Report 2002, P. 62-63.

of social and economic welfare and employment opportunities. The total population of Zambia was estimated 10.5 million in 2002. Average male literacy is 84.6 percent, which is higher than the average female literacy rate (70.2 percent). The average literacy rate is 77.2 percent of the population.²

The human development indicators have slowed down since the 1980s and began to deteriorate in the 1990s. For instance, at the national level mortality rate of children below five fell to a low of 150 deaths per 1000 in 1980 but has since crept upwards to 202 in 1992 and is estimated to be around 250 per 1000. Life expectancy for both males (41.4) and females (40.6) was in 1999, Life expectancy at birth for the total population was 41 years³. However, the 2002 official estimates indicated an increased life expectancy of 52. Fertility rates have remained stable at around 6 children per woman.⁴

Zambia has adopted republican model government since independence in 1964 and it is a member of the Commonwealth of Nations. Zambia has been a strong proponent of the Pan African Movement and a supporter of African liberation struggles and the non-aligned movement. Anti-colonial liberation movements of Angola, Mozambique, Namibia, South Africa and Zimbabwe had strong roots in the Zambian soil.

Economic liberalisation

Since the introduction of liberalization and structural reform measures in 1991, there has been some improvement in macroeconomic performance. Growth in gross domestic product (GDP) has averaged 2.0 percent per annum while inflation has fallen from the triple digit levels of the early 1990s to below 30%. Since the late 1990s, inflation has been an average of 27 percent on a year-to-year basis. The fiscal deficit has also been brought down during the same period. However, pressure continues to mount on the expenditure side and the domestic debt, arising from short-term (treasury bills and government bonds) financing from open market operations.

Between the periods 1995-2002, the exchange rate (US\$-Kwacha) has depreciated by more than 300 percent. Generally this has been due to shortage of foreign exchange resulting from low export earnings from copper. Copper production and exports experienced a declining trend due to poor performance of the state-owned mining company Zambia Consolidated Copper Mines (ZCCM) along with the dwindling demand and lower prices. Foreign exchange shortages were exacerbated by unsatisfactory disbursement of pledged external financial assistance coupled with high import dependence of the economy and high levels of debt service obligation, which was estimated as 15 % of the total expenditure budget.

² UNDP, (2001).

³ PRSP, 2002-2004

⁴ UNDP, (2001).

Table 1.1 Selected economic indicators: 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
GDP growth (%)	(2.5)	6.7	3.3	(1.9)	2.2	3.6	4.0	3.0
Inflation (%)	34.5	35.2	18.6	30.6	20.6	26.1	21.7	20.0
Deficit as % of GDP	-	-	-	-	11.4	13.6	2.4	3.3
ExchangeRate US\$1/ZK)	938.0	1,298.3	1,421.9	1,911.	2,630.9	4209.8	3,891	4,842
Treasury bill rate (%)	39.8	52.8	29.5	24.9	36.2	34.0	48.2	31.7
Lending rate (%)	45.53	53.8	46.7	31.8	40.4	49.6	55.0	50.0
Formal employment. As % of labour force	-	12.0	10.8	10.2	10.3			
Unemployment rate	-	12.9	15.2	11.9	10.3	-		
Foreign direct investment (US \$)	-	-	207	198	163	122	72	82
Gross Domestic Investment (% GDP)	13.9	14.9	14.5	25.6	24.2	-	20.0	18.0
Per capita GNP (US \$)	330	350	380	388	279	232	318	316
Total Debt Stock (US\$ millions)	6,089.9	6,206.1	6,752.6	6,928.7	6,507.4	6,310.5	7,123	6487
Debt stock per capita (US\$)	641	640	682	686	632	590	642	579

Sources: Central Statistical Office, Bank of Zambia, Economic Reports, 2001 and 2002 and Zambia DSA Report 1998, African Development Indicators 2000.

Gross domestic investment has remained relatively stagnant at around 14 percent of GDP while foreign direct investment (FDI) has showed improvement since liberalisation. Formal sector employment has remained low at about 11 percent of the total labour force. While there has been increased activity in the informal sector, this has mainly been dominated by retail and petty trading and other services sectors. For instance in 2002 wholesale and retail trade accounted for 18.7 % of the GDP⁵. In 2002 Gross Domestic Product (GDP) was estimated to be ZK 2701.9 billion.

Real GNP per capita has been declining and it has more than halved from the level at independence in 1964. Consequently Zambia has been re-classified from a medium to a low-income country. The debt stock shows an upward trend between 1995 and 1998 and thereafter a declining trend. Zambia is a heavily indebted poor country (HIPC) and a beneficiary of HIPC initiatives of debt cancellation and special external assistance. However, with Zambia's accession to the enhanced HIPC initiative on 1st January 2001, the country was expected to benefit debt relief thereby reducing the debt stock and debt service obligations.

The debt service burden exceeds a quarter of annual foreign exchange receipts. This is a major drain on scarce foreign exchange resources that the country needs to finance imports and development activities. Zambia is highly dependent on imports, particularly on imports of petroleum products, transport and communication equipments, electronic, fertilisers and pesticides, raw materials for manufacturing, food products, etc. Zambia is prone to balance of payments difficulties due to imbalances in trade with its partners.

⁵ CSO, The Monthly – Economic Indicators, January 2004

The external trade balance invariably reflects the internal fiscal position of the economy. The revenues-expenditure gap in budget is small as it follows the guidelines of international financial institutions (IFI). Domestic expenditures account for about 90% of revenues. The government therefore has a difficult debt service burden both at home and abroad. Several structural Adjustment (SAP) programmes supported by the International Monetary Fund (IMF), the World Bank (WB) and bilateral donors to relieve the fiscal burden through privatisation, budget support, cost sharing, reduction of civil service emoluments and market liberalisation have been tried out ever since 1991. But SAP, which continued about a decade has yet to be shown considerable growth in production, income and employment. As regards indicators, the country has privatised nearly 80% of its total of 320 state owned parastatal companies between 1992-2002 periods.

Agriculture output, which influences the livelihood of majority of the population, continues to be dependent on rainfall, rather than irrigation facilities. Production of major products such maize, grains and pulses, livestock and livestock's products, fishing, oils, tobacco and cotton are crucial. The production of industrial minerals such as lead and zinc have declined and, fertiliser, chemicals and textiles have either stalled or drastically fallen. Unemployment has risen considerably and the official estimate of 24 percent current unemployment seems to be an understatement. Annual growth of the labour force is 2.8 percent.⁶ In this background, Zambia has to take measures to overcome the economic stagnation and declining state of the economy, which began in 1980s. All forms of external development assistance and revenue through international trade will be required to accelerate the pace of development.

Following the conclusion of consultations under the International Monetary Fund (IMF) Article IV with the Government of Zambia, Zambia embarked on its structural adjustment program in late 1991, with a view to transforming a state-led, stagnating economy into a market driven economy. The economic reform programme consisted of three policy objectives:

- Restoration of macroeconomic stability through monetary and fiscal reforms
- Facilitation of private sector growth by removal of price controls and exchange rate and import and export controls.
- Shift agriculture and industry from public monopolies to private and decentralised institutions⁷.

Comprehensive reforms were implemented, including far-reaching trade and exchange liberalization, a liberalization of agricultural policies, an ambitious privatization programme, civil service reform, and a strengthening of the legal framework. **(For the details of the privatisation see annexure 1)**

⁶ World Bank, (2001).

⁷ See Lise Rakner, Nicholas van de Walle and Dominic Mulaisho in S. Devarajan, Pollar, D. R. and Holmgren, T. (Editors) Aid and Reform in Africa, World Bank (2001), Washington D.C pages 535-623

Despite the tremendous progress achieved in the privatisation of industry and the trading sector, there has been some delay in ensuring the private participation and bringing competition in public utilities such as the telecommunications, energy, media, railways and banking sectors. By 2002 political commitment to privatise the remaining parastatals remained low. This was because, the speedy privatisation had resulted in shedding of labour and increasing hardship among the working class. The closure of privatised mines, Kabwe lead and Zinc and Baluba mines created untold miseries to workers and their dependents. The proposed closure of privatised Konkola Mine—Zambia’s largest copper mine in July 2002 caused by withdrawal of the major shareholder Anglo-American Corporation due to poor copper prices and escalating production costs seems to have soured official commitment to privatisation. Commercialisation seems to be the preferred option due to the high national stakes held in the remaining sectors.

Fiscal policy

The fiscal policy focuses on taxes, government spending and borrowing.⁸ The government budget accounts for 35.5 percent of the GDP.⁹ The problem with the fiscal policy in Zambia is that it has to take care of huge expenditure for development and infrastructure but the tax base is narrow. This raises the tax burden on a few through increase in taxes. Zambia suffered from huge revenue loss and fiscal deficit because of the collapse of the copper price and industry and, therefore, needs to raise revenues from other sources and also restrain expenditure. Starting with a tax reform in 1993, the government has taken steps to improve tax administration and established the Zambia Revenue Authority in 1994. In 1995, Value Added Tax (VAT) was introduced and pegged at 17.5 percent. It is generally believed in Zambia that the existing level of VAT tends to make exports less competitive and unrewarding. This has resulted in an increase of the informal cash economy and evasive strategies to minimise taxes.

At the core of Zambia’s fiscal policy has been the control of government expenditure to reduce the deficit, through cutbacks on civil service emoluments and transfer payments. In the pre-reform period, the major cause of expenditure deficit was the policy of price control and provision of free public services- particularly education and health. Price controls entailed subsidies, which the government had to fund through public borrowing. However, even after the recent privatisation of the copper mines required the government to continue subsidising the poorly performing copper industry. In 2000, net public lending to Zambia Consolidated Copper Mines (ZCCM), for instance, was 19.33 percent of government expenditure, or 65 percent of receipts on income tax.¹⁰

The deficit is partially financed from external grants and public borrowing through issue of bonds¹¹. The increase in supply of bonds has tended to push interest rates upwards and acted as a brake on private investment growth, through the ‘crowding out effect’ of

⁸ In Zambia, public borrowing is not entirely a matter of monetary policy, but, to a certain extent, fiscal policy tool too.

⁹ Government of the Republic of Zambia, Budget Address 2002 p.14

¹⁰ Government of the Republic of Zambia, MOFED (2000) Table 2.3 Domestic Fiscal Performance.

¹¹ The economic report of 2000 showed that government borrowing accounted for 65 percent of bank lending, with 20 percent going to electricity and water and only 15 percent to the private sector.

government borrowing on the private sector. Poor fiscal policy management seems to be at the centre of internal distress in Zambia's economic situation. This has negative pressures on the external balance.

Another major concern is the quality of government spending. Much of the government expenditure goes towards the emoluments of its personnel (21 percent) and capital expenditure (39 percent), of which 60.4 percent is foreign-funded. Debt service is 15 percent and recurrent departmental charges 25 percent.¹² On account of this, expenditure in development and infrastructure suffers.

Monetary policy

The monetary policy in Zambia is based on the belief that a market-determined exchange rate can be helpful in correcting the balance of payments deficits. This, however, led to the depreciation of the Kwacha (Zambian currency) considerably. The fall in the exchange rate of the Kwacha was expected to shift foreign and domestic demand towards domestic output. By freeing the exchange rate, the country could manage money supply better. Under Zambian conditions of persistent trade imbalances, this also meant reducing money supply to lessen inflation.

However, achieving monetary targets hinges upon the corresponding supply of foreign exchange from the IMF and other balance of payments (BOP) support agencies, since BOP difficulties are driven by export shortfalls. However, the reduction of money supply has had the effect of raising interest rates and lowering the level of income. The negative effect of higher interest rates on the level of expenditure on domestic output has resulted in a lower level of income and employment.¹³

Foreign investment

During the copper boom period of 1960s and 1970s, a significant proportion of the mining surplus was invested locally in import substitution industries. Much of the foreign investment during this period was destined towards the creation of state enterprises as minority interests. With hindsight, it is clear that the choice of investment did not favour the development of manufacturing sector in Zambia. When copper revenues burst, both private and public investment fell drastically. However, recurrent expenditure did not decline. Gross Domestic Investments fell from 30 percent of GDP during 1964-74 to 11 percent in 1991 and have since begun to rise.

On balance, it can be said that as a foreign direct investment destination, Zambia has consistently performed worse than the neighbour Tanzania, and than Uganda, except for 1997 when Zambia's FDI inflows were higher. However, Zambia has a smaller population than all the countries indicated in table 3, therefore, per capita foreign direct inflows to Zambia were relatively higher. In terms of accumulated foreign direct inflows,

¹² Government of the Republic of Zambia 2002, *Estimates of Revenue and Expenditure*.

¹³ see Levacic, R and A. Rebmann (1982), *Macroeconomic – An Introduction to Keynesian – Neoclassical Controversies* ELBS, Macmillan for an extensive discussion of this theoretical framework.

Zambia's gross investment is highly dominated by foreign investors, at 52 percent of gross domestic product.¹⁴

Table 1.2 Global Economic Indicators (in Million US Dollar)

Item	1970	1980	1990	1993	1995	1999	2000	2001	2002
Gross National Product	1,742	3,594	3,008	3,019	3,228	2,994	3102	3600	3700
Exports	-	1,625	1,362	1,440	1,445	940	746	887	920
Imports	-	1,987	2,336	1,661	1,762	1,491	978	1253	1157
Reserves	515	201	206	192	223	45	114	114	259

Source: Global Development Finance, World Bank Country Tables, 2001, p.600 and Economic Reports 2001/2, Ministry of Finance

Indicators given in Table above show a declining economy over the past thirty years since 1970. The decline accelerated from 1990 but the government did not engage a long-term response to external shocks. Rather, they thought the crisis would pass and therefore resorted to short-term external borrowing, which resulted in the long run accumulation of an external debt. It then becomes clear as to why one sees a rapid rise in external borrowing from less than USD1bn in 1970, to three times more ten years later and a doubling in the following ten years.

Accumulated external debt had severe implications for Zambian economy. The debt service to exports ratio increased from 21 percent between 1975 and 1984 to 64 percent in 1985-1990 periods and remained around 57 percent after 1996¹⁵. The rise in debt service burden coincided with reduction of the share of exports in GDP by 50 percent in 1965-74 and 31 percent 1990-1995. But the share of imports to GDP only reduced by 39 and 34 percent respectively.

Similarly, fiscal revenue fell from 30 percent of GDP for 1970-74 periods to 19 percent for 1980-90 periods. The greatest slump in revenues came from mining, which declined from 10.8 percent of GDP or 36 percent fiscal revenue to a low level of 1.6 percent of GDP or 8.4 percent of revenues¹⁶. To manage the economy, Zambia today depends on large external grants. Most of these grants are in form of budget and balance of payments support and food aid. Even this, has declined over the years, from US\$ 110 per capita in 1991 to US\$ in 2001. As per the 2004 budget papers, 37 % of the budget expenses are financed with the support of cooperating partners.

¹⁴ WIR (2000), table B4.

¹⁵ World Bank 1996, *Zambia: Prospects for Sustainable Growth 1995-2000*

¹⁶ World Bank 1995, *Public Expenditure Review Report No. 13857-ZA*

Table 1.3 Central Government Finance as a Percentage of GDP

	1995	1996	1997	1998	1999	2000	2001	2002
Total Revenue	29.1	26.8	24.5	27.8	17.6	19.3	20.5	18.0
Total Expenditure	32.9	29.4	26.8	28.8	17.0	22.0	23.0	22.0
Government Deficit excl. grants	-13.0	-8.7	-7.0	-10.0	1.0	-2.1	-2.4	-3.2
Government Deficit incl. Grants	-3.8	-2.6	-1.9	-4.3	1.0	-2.1	-2.4	-4.1
Total Domestic Public Debt outstanding	NA	11.7	10.0	14.3	NA	3.29	31.5	26.2
Current Account – including official transfers as % of GDP	-4.2	-3.7	-6.1	8.1	-17.0	-18.9	-20.0	-16.3

Source: World Bank 1995, Public Expenditure Review Report No. 13857-ZA and Economic Report 2002

Zambia has a relatively open economy. With a Gross National Product of US\$3,158 million in 1998, total foreign trade accounted for US\$2,854 million or 90 percent of gross national product. According to 2000 data on export orientation shows that 56percent of exports revenue are from copper.¹⁷

Analysis of the external sector 1975-98 shows that annual exports have gradually declined over the years, but imports have consistently recorded positive annual growth rates. As a result, terms of trade have gradually deteriorated. Export unit values declined by 33 percent between 1995 and 1998¹⁸. Import growth has been accompanied by declining domestic manufacturing sector. The quality of imports has changed substantially from capital and intermediate goods to capital and final goods.

Imports

Zambia depends on imported petroleum and foreign exchange supplies are mainly spend on petroleum, capital and intermediate goods and food imports. Imports are crucial to the development of the economy as domestic production is confined to a few sectors. Import penetration i.e. the proportion of imports in domestic output, remains high, at about 33 percent per annum. Zambia imports mining and transport equipments, petroleum, and a substantial proportion of its raw materials and final goods.

External trade liberalisation has induced an import competition driven process, which resulted in the closing down of several domestic manufacturing firms, who could not withstand competition. However, the ailments of Zambian manufacturing cannot be solely explained by import competition. It is a fact that the declining copper industry has also contributed to the viability of manufacturing enterprises. In general, declining domestic demand has badly affected a number of firms that were unable to redirect their operations towards export markets. It should be mentioned that paper, chemicals, textiles

¹⁷ World Bank, (2001). The exact figure for 2000 was 56.4 percent.

¹⁸ World Bank, (2000).

and garments sectors have been badly affected from import competition. Causes of the poor export performance of Zambian industry are both structural and policy induced. Competition from imports was only one of the business constraints faced by Zambian industry. Industries have great difficulty in competing in the export as well as import sectors due to high cost of production and low quality of products.

Exports

In 2002 total exports earning totalled to US\$920 million, was 4% higher than 2001. The value of imports totalled to US\$ 1157 million which was 7.7 % lower than 2001. The non-traditional exports earning in 2002 was US\$ 326 million, which showed 11% increase from 2001. The growth was visible in sectors such as cotton lint, barley, tobacco, fresh flowers, gemstones, sugar, copper wires and gold bars.¹⁹

To sum up, there has been substantial increase in import of the food and beverages items, garments and non-metallic mineral products, particularly asbestos products. There has been very little progress towards enhancing competition in the so-called public service sectors. The major reasons for this could be the lack of substantial sub-sectoral restructuring before privatisation.

¹⁹ Economic Report 2002, p. 50-51

Trade policy & regional and multilateral trade agreements

In 1991 the Government decided to liberalise the economy and hence its trade policy by removing bottlenecks to both domestic and international trade. The primary objectives of Zambia's Trade Policy include the following: 1. maintain a liberalised import and export regime that supports industrial development, 2. encourage production of exports and continue diversifying the export base, 3. support and encourage export of value-added goods, 4. Seek new markets and strengthen ties with regional and international markets, 5. ensure efficient customs administration and fair trade practices and reducing poverty through sustainable economic growth.

World Trade Organisation (WTO)

Zambia is a member of the WTO. For Zambia the multilateral trading system is seen as a means and effective way for the expansion of markets for its products as the promotion of trade with various countries. However, Zambia's capacity to take advantage of its participation in the system has been limited due to implementation problems as well as by virtue of its level of development coupled with unfair trading practices by the developed countries (through high tariffs and trade distorting subsidies). Participation in alliances such as the Africa Group, ACP/EU and the Least Developed Countries have offered a platform for the country to participation at the multilateral level.

6.3 Regional Trade Arrangements

Zambia has membership in two main regional trading arrangements: the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC).

COMESA

In December 1994, the member states of COMESA ratified the decision to introduce a single rate of tariff reductions for intra-regional trade. This was to start with, an across the board, 60% reduction on all goods qualifying as originating from the member states according to the criteria established in the protocol on the rules of origin. In this regard, member states have been implementing the agreed tariff reduction programme with the aim of achieving 100% preference by 31st October 2000 thus creating the Free Trade Area (FTA) i.e. when all tariffs on intra-regional trade would be eliminated. It is expected that national tariff reductions should lead to the establishment of the FTA, i.e. with intra-COMESA traded products enjoying zero tariffs. Against the above tariff reduction targets, the achievements of the member states have been mixed.

The COMESA Free Trade Area which came into operation on 1st November 2000 aims to deepen and broaden the integration process among member states through basically the complete elimination of tariffs and non-tariff barriers to regional trade. Member's participation in the FTA is currently, however, varied with only nine of the twenty-one members having met the 31st October 2000 deadline for zero tariffs. The membership

covers the southern African countries (except South Africa), East Africa excluding Tanzania as well as Egypt.

Following COMESA tariff reductions and the advent of the Free Trade Area from 31st October 2000, member states were expected to apply zero tariffs on intra-regional trade provided that the traded goods complied with the criteria set out in the protocol on the COMESA rules of origin. The introduction of COMESA tariff preferences is part of the trade liberalization strategies adopted by the regional grouping towards the creation of a common market. The creation of a common market is to be achieved after the elimination or sufficient reduction in transaction costs on intra-regional trade, improving the investment climate by harmonizing investment regimes and approval procedures, and by facilitating the free movement of people and capital across the region.

Table 1.4 Zambia's Trade with SADC and COMESA Countries 2003
(Million Kwacha) US1 = 4700 Kwacha

Region	Quarter1	Quarter 2	Quarter 3	Quarter 4*	Total
COMESA					
Imports from (cif)	333, 683	208,933	263,407	418,415	
Exports to (fob)	76,911	92,745	112,944	144,559	
Trade balance	-255,772	-116,188	-150,463	-273,856	
SADC					
Imports from (cif)	1,219,045	1,135,476	1,055,027	1,333,864	
Exports to (fob)	399,962	478,273	540,854	575,176	
Trade balance	-819,083	-657,203	-514,173	-758,688	

Source: CSO, International Trade Statistics, 2003 cited in CSO Monthly

* Provisional

The major exports to COMESA are mineral fuels, sugar and confectionary, cotton and tobacco and tobacco substitute. The major imports from COMESA are malt and flour, bituminous coal, edible oils- (palm) soap, iron wire, etc

COMESA gives export opportunities to Zambia to a certain extent, to countries. According to 2002 export figures the increase in copper cables export to Kenya was due to COMESA arrangement. Another notable exports items to COMESA countries are Cement and sugar. In 202 Zambia imposed temporary ban on selected items from Zimbabwe –due to parallel exchange rate prices.

Southern African Development Community (SADC)

The SADC Treaty basically aims at the creation of a development community, which through regional cooperation and integration would provide balanced economic growth and development, political stability, and security for all member states. As a result among its protocols is the Trade Protocol, signed in 1996, which is aimed at progressively establishing a SADC free-trade area, initially over eight years. Implementation of the Protocol is based on the principle of reciprocity, i.e. tariff preferences will be extended only to member states that have submitted their instruments of implementation while the phase-down offers are country-specific.

Sugar and textiles are covered by a special agreement annexed to the Trade Protocol which provides duty-free-quota access to SACU markets for non-SACU member countries of SADC. However that on textiles is extended to least developed member countries which include Malawi, Mozambique, Tanzania, and Zambia. Zambia has apart from apparel; a cotton quota of 1,700 tonnes per annum within SADC.

The major imports from SADC in 2003 were motor vehicles, petroleum oils, sulphur, manufacturing machinery, asbestos, iron pyrites and chemicals. The major exports items include, copper and copper articles, base metals, wood and cotton.

The SACU arrangement offers to Zambia duty free exports of copper cables to the former.

The Cotonou Agreement

Zambia is a signatory to the Cotonou Agreement between the European Union (EU) and 77 Africa, Caribbean, and the Pacific (ACP) countries. Under the agreement the EU maintains non-reciprocal trade preferences for ACP country exports. However, this would only go up to 2008 when the ACP would have to on a reciprocal basis extend preferential access to EU exports. The EU is an important market for Zambia's non-traditional exports (NTEs). In 1999 it accounted for 38% of total NTEs, while in 2000 and 2001, this was 36% and 34% respectively.

Zambia has an annual sugar quota to the EU, which has provided opportunities for the domestic sugar sector.

The African Growth and Opportunity Act (AGOA)

The African Growth and Opportunity Act (AGOA), contained in the U.S. Trade and Development Act of 2000, offers free access to some manufacturing products originating in African countries up to the end of September 2008. While all AGOA eligible countries are entitled to duty-free access to the US apparel market, quota-free access is granted in the case that use is made of U.S. fabric, yarn or thread. Furthermore all the eligible countries with a per capita GNP of below US\$1,500 in 1998 are liable to use non-U.S. fabric only up to the end-September 2004.

Zambia lacks capacity to export to take advantage of the free access to the US apparel market. However it has been able to benefit from the arrangement through increased market for cotton to Mauritius and South Africa. And although many other products, including certain processed agricultural goods, are covered by AGOA, some of Zambia's major agricultural products are yet to make it into the AGOA list, due to lengthy inspection procedures by the U.S. Department of Agriculture.

In 2002 Zambia exported US\$ 5.8 worth of cotton yarn and textiles under AGOA.²⁰ There were two firms who engaged in this business with the US under AGOA arrangement.

²⁰ Economic Report, 2002

An assessment of the trade and economic liberalisation

The economic reform programme, which began in 1991 will remain unfulfilled without strengthening the regulatory environment, production and export base of the country. Considerable achievements have been made towards improving macroeconomic management, the opening up of the economy to international competition and the establishment of a regulatory regime through legal reform. However, these measures are yet to result in tangible economic progress.

The thrust of the macroeconomic stabilisation strategy has been to control inflation by reducing fiscal deficits and the money supply. This was to be achieved through the elimination of subsidies and the adoption of a cash-budget so that increase in expenditure would only be met from revenue increases or savings. Initially the implementation of these proposals resulted in a further decline of the economy. It was realised later that the implementation of structural adjustment policies should be accompanied by social safety nets to mitigate the consequences of the implementation of these policies.

Thus, the national development strategy was placed into poverty reduction terms. The government's overall development objective is 'to ensure that poverty reduction issues are on top of the agenda for sustainable national development'.²¹ Following privatisation of state owned enterprises; trade and foreign exchange liberalisations and restructuring of the public service; reform of education and health sectors to make them financially sound and effective; private sector promotion and infrastructure rehabilitation, the problems of debt and external financial dependence remained unresolved and the development strategy intended to overcome these constraints.

A liberalized market allows the greatest possible interplay of market forces of supply and demand to direct and allocate economic resources. It allows the state to only involve itself in those activities, which the market cannot perform e.g. the provision of public goods or those, which are necessary to establish the framework within which markets can operate efficiently. The theoretical concept of perfect competition is a useful tool for the analysis of the workings of a liberalized market but more so of free trade. Although some of its conditions/assumptions are rarely realized in practice, it serves as a convenient framework for assessing the extent to which economic actors in the context of international trade approach the ideal of a perfectly competitive relationship in trade.

The results of the trade policies reforms have been commendable in case of non-traditional exports, which have grown from a low US Dollar \$68 million in 1987 to \$300 million in 1999. However, the metals have continued to contribute about 60% of the total exports and further that raw materials exports remain predominant. On the whole, the above improvements have arisen from factors such as the streamlined export procedures, reformed direct and indirect taxation and the abolishment of the import declaration fee. There have been some negative effects of the liberal trade policy including the cheaper imports compared to locally produced goods and services leading to closure of many

²¹ Ministry of Community Development and Social Services. *National Poverty Reduction Strategic Framework* Lusaka, May 1998, p.36

companies in manufacturing sector. The loss of jobs has also been worrisome. All these problems have brought to bear many pressures on Government to change policy and membership of the regional trading body, COMESA. Zambia has overall remained a net importer against the rest of the world despite the trade and economic liberalisation measures.

The need for export product diversification was recognised even before the liberalisation.²² Even if the copper prices were to improve, the cost of mining had increased considerably because of low copper content and mining at great depths. A major effort that was made was encouraging production of coffee. In addition, the government tried to encourage production of high-value low volume minerals, gemstones and gold. These efforts had very limited results. A considerable achievement was the promotion of horticultural exports. As per 2001 data, cut flowers, fresh vegetable and sugar exports to Europe account for almost 17 percent of total exports.

It was however realised that real benefits through trade would only come to the country when the economy is on a competitive footing. This was seen to lie in liberalisation of trade and markets. Zambia has made substantial policy achievements in trade liberalisation by removing impediments to exports in 1990 by streamlining export licensing. In 1991 discretionary waivers and exemptions on import taxes were also removed. By 1993 a minimum tariff of 20 percent and maximum of 40 percent and the abolition of the 10 percent import licence fee were affected. During 1996-1997 more tariff reductions were implemented and all capital controls were removed. For example, duty on agricultural inputs was removed in 2000 and other customs and excise duties on manufactured products and their inputs were further reduced²³.

A small number of goods may be imported into Zambia duty-free, including books, publications and pharmaceuticals. Most goods fall into one of three tariff bands: 5% (raw materials, capital equipment); 15% (intermediate goods); or 25% (final products). Duty on productive machinery for agriculture and mining is zero-rated. However, there is a 5% import declaration fee on all goods. An export licence is required for export of some goods, such as maize, considered to be of strategic importance.

It can be concluded that all the efforts of macroeconomic management, economic stabilization, market liberalization and public sector enterprise privatisation have had limited success in significantly reducing the incidence of poverty.²⁴ The thrust of the national macroeconomic framework is the pursuit of economic growth and poverty reduction through free markets. It is projected that achievement of an annual real growth rate of 4.8 percent would be sufficient to bring about significant debt and poverty reductions.

²² Product diversification was the major policy objective of the Fourth National Development plan 1988-92. This plan was however overtaken by the structural adjustment programme in 1989.

²³ Economic report 2000

²⁴ The recent Zambia economic development and performance is mainly obtained from the IMF's Public Information Notice (PIN) No. 99/39

The key to this goal is supposed to be in achieving foreign investment growth, export promotion, rehabilitation of infrastructure and attaining fiscal and monetary policy targets. However, a closer examination of policies does not reveal *how* that can be achieved. It is probably enough to say that the statements represent a curious mix of conjecture and wishful thoughts of what the country actually needs.

6.4 Trade profile of selected agriculture and horticulture products

Developments in agricultural liberalisation

From 1964 to 1991, Zambia had largely remained a mono-economy driven by earning from mineral exports especially copper and also cobalt. This is despite efforts made during the time to diversify the economy, through an import substitution strategy aimed at improving industrial growth. In 1991 when the Government embarked on a programme of trade liberalisation with the objective of strengthening the viability of its external accounts, in concert with higher growth in a stable macroeconomic environment, and to reducing poverty, trade policies were among the key areas chosen for reform. By promoting the private sector through the implementation of structural reforms in the economy it was hoped that the private sector would work in partnership with the Government to provide Zambia both competitive as well as comparative advantage in regional and international markets. This coupled with Zambia's active participation in the multilateral trading system and in various regional and bilateral trade agreements, were expected to secure market access for its products.

The trade policy reform emphasised the opening up of the economy with the removal of restrictive trade and foreign exchange controls; and the horizontal diversification of non-traditional exports (i.e any export items other than metals, including gemstones, horticultural and floricultural products, coffee, cotton, textiles, and tobacco), in order to reduce Zambia's dependence on metals, in particular copper. This strategy was expected to substitute decline in their production and fluctuations of their prices. However, the sudden removal of subsidies and opening up of the economy through trade liberalisation had an adverse impact on both the manufacturing and agricultural sector. **(For details of Agricultural reform see Annexure 2)**

There have been several studies indicating the growth of agricultural sector since liberalisation. According to a Sector Performance Analysis (SPA) finds that there have been a number of positive outcomes in smallholder agriculture in the period 1996 to 2000, the so called Agricultural Sector Investment Programme (ASIP) period. There has been a rising trend in the total area cultivated which ranged between 1,160,869 and 1,327,221 hectares between 1996 and 2000 compared to the range of 777,392 and 1,131,896 between 1990/91 to 1995/96.²⁵

Further, there has also been diversification away from maize, particularly for areas where agronomic conditions are not suitable for maize cultivation. Much of the gain has been with the production of small grains and tubers (sorghum, millet, cassava and sweet

²⁵ Kane Consult, ASIP evaluation, Lusaka, 2004

potatoes), which are more tolerant to droughts. These changes are important in building a stronger foundation for household food security.

It also indicates that farmers do respond to price incentives as the prices of some traditional crops have been rising relative that of maize. The role of the markets must therefore be recognised as fundamental to shaping farmers production decisions. With relative price increases, traditional crops, and particularly tubers, have been increasingly entering the markets.

Issues in the agricultural sector

There have been some positive developments in the agricultural sector since 1990. The total and average area cultivated have recovered to slightly above the levels attained in the first part of the 1990s. Farmers appear to have begun to overcome the problems leading to low labour productivity. The diversification away from maize in areas that are not suitable for its cultivation is a welcome adjustment to prevailing climatic and agronomic conditions. By increasing the production of crops that are more tolerant to drought, a stronger foundation towards the achievement of household food security may have been laid. The rising contribution of agriculture to non-traditional crops offers great prospects for agriculture to emerge in the present decade as the true engine of Zambia's economic growth. Nevertheless, yields are still too low compared to what is achievable under improved crop husbandry. At the same time, average area cultivated per household noted above, remains too low to make any significant impact on rural people's well-being.²⁶

Nature of external trade

In terms of exports though, since 1995, the non-traditional exports (NTEs) have risen in importance from 16% of total exports in 1995 to 34% in 2001. And in terms of exports, the primary agricultural sector has continued to hold the highest share as a percentage of NTEs. The predominant crops being tobacco, cotton, white maize, dried beans and groundnuts. Also soyabeans, castor beans and seeds. However, in terms of export earnings, three quarters of this comes from cotton, tobacco and coffee. Other sectors of relative importance in terms of earnings are horticultural, textiles, processed foods. The non traditional exports amounted to US\$ 326 million in 2002, which is 11% higher than 2001 figure.²⁷

Agriculture's share in non-traditional exports rose significantly in the ASIP period. From 21.9% in 1990, the share rose to 46.4% in 1999 before declining to 38.4% in 2000. This has raised the prospects of agriculture becoming the engine of the Zambian economy as it competes with copper in foreign exchange earnings. Small farmers have participated in the rising exports through the production of new crops such as paprika and baby corn under out grower schemes, particularly in areas around Lusaka. The production and export of seed cotton which is predominantly grown by small-scale farmers picked up significantly in the ASIP period and has gone back to the levels attained in the 1980s.

²⁶ Ibid

²⁷ Economic Report 2002, p. 51

Table 2.1 Total Agricultural Production for Selected Crops, 1989/90 to 2001/01

Crops	Metric tonnes							
	1989/90	1990/91	1991/92	1996/97	1997/1998	1998/99	1999/00	2000/01
White Maize	1,128,670	1,095,908	483,492	921,968	649,537	852,475	971,614	801,877
Tobacco	1,550	865	1,258	3,504	9,675	2,169	3,416	5,640
Virginia Tobacco	1,550	-	1,050	939	25,941	3,762	3,196	4,196
Burley								
Groundnuts	25,086	28,188	20,504	45,589	56,934	45,302	53,950	53,251
Sunflower	31,945	17,032	2,388	12,773	7,008	6,748	8,074	19,176
Wheat	47,646	52,206	48,436	32,456	70,000	69,226	74,700	1,102,086
Paddy Rice	9,293	14,602	8,289	14,033	6,399	14,700	8,871	6,547
Soya Beans	23,814	22,824	7,822	29,283	12,322	26,703	22,769	4,249
Seed Cotton	63,536	48,721	25,899	74,647	110,000	58,515	56,758	49,498
Mixed Beans	14,312	14,123	20,401	13,728	13,905	16,492	14,708	21,349
Sorghum	19,591	20,939	13,007	28,056	25,399	25,494	26,801	30,245
Millet	107	66	181	130	1,446	69,618	43,161	49,606
Sugar Cane	1,128,670	1,126,539	1,136,075	na	na	na	145,890	na

Source: Kane Consult, ASIP Evaluation, 2004 (forthcoming)

Table 2 shows the growth traditional exports. The greatest export growth has come from the export of cut flowers and fresh vegetables.

Table 2.2: Shares of Non-Traditional Exports (NTE's) in 2000

Product	Earnings (thousands of US\$)	Percent of Total
Fresh Flowers	30,780.7	14.6
Cotton Yarn	22,447.7	10.6
Sugar	20,831.2	9.9
Fresh Vegetables	16,056.0	7.6
Copper Rods	12,081.8	5.7
Gemstones	11,983.0	5.7
Tobacco	8,333.0	4.0
Coffee	7,376.4	3.5
Subtotal	129,889.8	61.6
Total NTE's	210,835.5	100.0

Source: Bank of Zambia, 2001

The growth of non-traditional exports, though impressive, from 10 percent in late 1980s to 15 percent in the 1990s, has been too small to contribute meaningfully to overall export performance due to its small share. It is envisaged that there is still a lot of growth and marketing potential for commodities such as cotton, coffee, soybeans, sorghum, and tobacco, fresh flowers and vegetables, cotton-based textiles and garments, processed food (including sugar and stockfeeds), gemstones, value-added wood products, leather products, and high value crops (marigold, paprika, herbs, spices, and essential oils).

For LDCs like Zambia its economic performance and development are inextricably tied into its relations with other countries and multilateral organisations. Therefore, it is worthwhile to explore Zambia's trading position and the economic problems the country continues to face resulting from the movement of goods, services and capital across its international borders.

Zambia's main export markets

Since part of the philosophy behind the trade liberalisation in the 1990s was to reduce the dependency of the economy on copper, there has been an effort to stimulate the production and export of non-traditional exports. The major export markets for Zambian non-traditional exports consist of the EU and the COMESA as both account for roughly one third each of the exports and the remaining one third to other countries. The major destinations for non-traditional exports are Democratic Republic of Congo (DRC), Zimbabwe, Malawi and Tanzania.

Zambia's agricultural exports, mainly floricultural, are marketed largely out of the region as many neighbouring countries such as Zimbabwe produce similar items. The United Kingdom and Germany are the largest importers. One of the most important exports, textiles, finds a market mainly in the EU and Switzerland. However, since 2000 the AGOA has offered market opportunities for exports of textiles and clothing items to the US directly and through third country such as Mauritius. Within the COMESA region, DRC is the main export market for Zambia's products, followed by Zimbabwe.

As far as imports are concerned South Africa is Zambia's major supplier, with a share in Zambia's total imports of almost one third, followed in order by the EU, Zimbabwe, Japan and the United Kingdom. Under the rules of the WTO all of Zambia's trading partners have most favoured trading nation status (MFN). This means that they are all treated similarly in terms of trade barriers. Having said this, preferential treatment is given to members of COMESA and SADC, the two different trading blocs that Zambia belongs to. Imports from COMESA partners enter Zambia at preferential rate (40 per cent of the applicable MFN rate).

Agriculture, horticulture, floriculture, etc.

Zambia has 42 million hectares of arable land. Between 1996 and 2000 the total agricultural area under cultivation ranged between 1,160,869 and 1,327,221 hectares. This however, represents only 14% of the 58% total potential area for agricultural production.

The agricultural sector employs 85% compared to 6% and 9% in the industry and services respectively of the 3.4 million labour force. Therefore, agriculture has a greater impact on the income earning potential of the people. The country's total exports in 2000 stood at US\$ 928 million. Agriculture exports (horticulture, floriculture, high value crops and primary agriculture) in 1999 were US\$139,049,370 denoting a contribution of over 45% to overall NTEs (US\$304,495,810). According to 2003 data agriculture (including forestry and fishing) in Zambia contributes nearly 15.3 % towards GDP²⁸.

²⁸ CSO, The Monthly, January 2004

The agricultural sector despite being constrained by the informal markets, poor support services and high production costs, remains one of great importance to Zambia's economy and its people. Nearly 60% of Zambia's population, who live in the rural areas are dependent on agriculture and allied activities for their livelihood with the majority involved in subsistence level agriculture. A large portion of them is small-scale farmers.

The sector's economic significance is also seen in the fact that in post liberalisation period the positive growth registered by the economy has largely been attributed to the good performance of the agricultural sector. It is thus proposed that by encouraging production of cash crops such as cotton, Cut flowers, fruits and tobacco coupled with the wider markets provided by the different trade arrangements/agreements in which Zambia is a member, would significantly help in reducing poverty in the country.

It can therefore be deduced that interventions in these areas especially focusing on export markets and also domestic marketing- have the potential to offer employment to a relatively large number of people particularly in the rural areas both directly and indirectly. That is, farmers on a small scale can easily finance production or there is availability of out grower schemes for the same. For instance, there are low cost areas for the production of cotton in terms of inputs as farmers can easily finance production or conversely, they can benefit from out grower schemes, which have grown considerably in the recent years.

6.5 Sector profiles

Cotton

The production of cotton in Zambia following the economic liberalization programme has risen to about 120, 000 tonnes per annum. Despite this, production remains short of enabling the total utilisation of Zambia's ginnery capacity which stands at over 125,000 tonnes per annum. Thus, there is potential for employment creation in both the actual cotton production process at the farm level as well as at the ginneries especially for the majority of Zambia's rural unskilled labour. At the farm level, cotton demands the employment of people to plant, and pick the cotton after maturity while at the ginnery level a great number of people are needed to grade and pack the cotton for export. Out-grower scheme is common in the cotton sector- where farmers are offered farm credits inputs and markets by the buyers. Currently Dunavant, Clark cotton and Lonhro are the major players in the cotton industry. Out grower schemes of Dunavant has directly created employment for an estimated 2000 people.

Furthermore, the market opportunities under the SADC protocol and AGOA, offer potential for expansion of cotton production. While Zambia's current cotton quota under the SADC Trade protocol to SACU countries stands at 1, 700 tonnes per annum for which the country is seeking a revision, AGOA has presented a market expansion for Zambia's cotton. This was evident from the export figures of 2002. Zambia's cotton market is as follows: about 30% is sold on the local market; 40% to South Africa; 20% to the EU; and 10% to the Far East Asia.

Thus there is significant potential for cotton to contribute to the economic empowerment of many of the rural poor's living conditions. However, it requires policy interventions at the national level. At the national level, the trade policy needs to be coordinated to for purposes of enhancing production, processing and marketing opportunities. The focus should also move from production of yarns to fabrics—which will provide value addition. At the international level, the huge subsidies granted to cotton farmers in the EU and the US is affecting the international prices of cotton to the detriment of Zambian exporters.

Supply side constraints affecting cotton sector

Farmers accustomed over several years to increasing prices, and with limited information on world market conditions, they find it difficult to understand the reasons for the recent declines in prices they receive. The out grower scheme has its benefits and also disadvantages. This, together with a lack of transparency in how each buyer determines its prices and how they deduct input costs, has lead many farmers and their representatives to conclude that they are being exploited. This environment of lack of information and mistrust has in all likelihood contributed to the increasing rate at which farmers are defaulting on their loans and side selling to other firms. But Lonhro Cotton Company also cites \$2 million per year in Zambia in unpaid loans as a major barrier to be overcome by new investors.

Other problems include:

- High energy costs such as fuel and electricity relative to the region; poor infrastructure (high transport costs in area of operation);
- Government taxes and levies are a threat to the industry as there is thought of classifying ginneries outside agricultural companies;
- Tax rate on local sales ranges from 15 to 30% with premium price to be charged to local spinners.

Apart from the lower global prices, Zambian cotton sector is also facing competition from high production from Brazil, Zimbabwe and Central America

Paprika

Another sector of production that perhaps has considerable potential to impact on poverty is that of the red sweet pepper in the capsicum family, called paprika. It is mainly an export crop and has gained market recognition due to its foreign earning base among growers. Since the crop is in the same family as tobacco and is similarly cultivated with nursery propagation, transplanting and cultivation, small-scale tobacco farmers have diversified into growing paprika especially due to the current ban on tobacco advertising. The advantage of paprika over tobacco is that the former requires lower levels of investment and management though profit margins are almost the same.

The increase of paprika growers has been notable, which is averaging 5000 new growers per year since 1995. There are between 30,000 to 50,000 growers and figure is increasing year by year. These form a large nucleus of contract farmers to the major player in the

Paprika industry Cheetah Paprika-ZAMBIA-the producer organization and subsidiary of a Netherlands based company operating in Zambia and Malawi. The company has embarked on adding value by processing with Advanced Technology hardware and is expecting a further investment. The business has grown from 0 to 2,000,000 kg of paprika (2% of global market) over a 6 year period and is ready for growth to 5,000,000 kg per year. The world market for paprika is estimated at 100, 000 tonnes annually and is growing at an annual rate of 3-5%.

Until a couple of years ago Spain used to be the market leader for Paprika. Since Spain has lost most of its 40, 000 tonnes paprika production, nearly 60% of this figure is supplied by Zambia, Zimbabwe, South Africa and Malawi. Zambia is endowed with fertile soil, the availability of rains, irrigation and a promising investment climate and after an intensive market research and production trials, Zambian paprika has been found to be of the highest possible quality, which has generated interest from European buyers.

The biggest incentive for small scale farmers has been the signing of a contract with the buyer usually Cheetah Zambia, and are told how much they would receive for their product before their crop could be cultivated and they are paid within 15 days after delivery of the crop after it has been classified, re-graded and analysed for colour content and moisture. Normal yields vary from 800 to 3500 kg per hectare while total costs (including labour, Machinery, irrigation, depreciation, interest, management) vary from US\$400-US\$2,000 per hectare.

Obstacles to improve paprika production for small-scale farmers include the following:

- Lack of infrastructure
- Much of rural Zambia has poor roads, unreliable motorized transportation, and over-dependence on manual transportation and loading.
- The cost of logistics-the crop requires insect pest control and disease control. The chemicals used for these processes are expensive.
- Lack of telephone facilities and Internet services has shut off much of the rural areas. These are essential facilities for obtaining of specific product world market prices.
- Lack of Government and or relevant organizations support.
- No tangible incentives by Government and the local Authorities-little Managerial skills available and or expensive.

Maize

The production of maize is a key source for livelihoods of many resource poor people either as producers or consumers. Until 1991, there was considerable progress in the involvement of small scale farmers in the rural economy. Maize accounted for 70 percent of the value of marketed food production, while it accounted for 60 percent of the value of all crops produced. As per the 2001-2002 figures, the maize production was 601,

606tonnes, which showed a 24 percent decline from the previous year²⁹. The production of maize is fluctuating and this affects the trade prospects of the product.

Coffee

Small-scale farmers under the Coffee Board of Zambia are increasingly growing coffee. The world market price for coffee (especially Zambian coffee) is good. The quantities are, however too small to make an impact on poverty. According to 2000 data the export of coffee (HS 901- roasted, husk, skin, coffee substitutes with some amount of coffee, etc) accounted for US\$ 5. 39 million. The main export markets were Germany and South Africa.

Sugar

Zambia's sugar quota (known as the Special Protocol on Sugar-SPS) with the EU stands at 18,000 metric tonnes (mt) per annum. This is under the preferential deal between the EU and ACP countries. The Zambia Sugar Company PLC, through the Zambian government has repeatedly argued that this is too low a quota since the company is able to satisfy this quota apart from supplying other international markets and still remain with excess capacity. Fiji holds a quota to export around 165,000 mt of sugar each year to the EU at prices of up to four times higher than the prevailing international rate, depending on market prices and exchange rates. It is envisaged, however, that the accession of 10 new European countries to the EU membership in 2004 year shall expand the market base for Zambia's main export products to the European Union (EU). The export revenue from Sugar declined tin 2002 due to lower international prices. The SADC protocol gives quota for Zambia to export sugar to the former group countries.

Honey

Another sector of production that is envisaged with some amount of potential to impact on poverty is that of honey. Beekeeping in Zambia is mainly done in the rural areas such as in the North Western Province (the Miombo woodlands) as well as in Central Province where poverty levels reached 83 and 77 percent respectively. The major producer in Zambia is the North-Western Bee Company that yields up to 400 tonnes of liquid honey per annum. About 280 tonnes of the yield is exported while the rest sold locally. According to figures at the Export Board of Zambia for 2001 US\$41, 397.40 worth of honey and beeswax was exported to Europe.

Consumption levels of these products in Europe stands at about 260,000 tonnes while other markets are found in the Southern African Region and includes Namibia, South Africa and Botswana. The product is mainly sold to the EU market offering great potential for expansion where uses of the product are expanding into medicines, cosmetics, health food, and as a raw material for expanded nutritional food content. This market has an average per capita consumption of 0.7kg.

²⁹ Economic Report 2002, p. 58

Constraints include:

- lack of capital for expansion and procurement of raw materials
- lack of quality control
- ecological i.e. limited supply of honey from the forest
- honey collectors are traditional beekeepers who have no knowledge of the demands
- of the export market
- poor product presentation and labelling

There is need for affordable hard currency credit to purchase enough raw materials to allow full utilization of installed capacity. The industry also needs to upgrade processing technologies to achieve greater efficiency and good quality. Trade of honey to Europe and the US has been affected by the standards matters, especially Sanitary and phytosanitary measures (SPS).

Standards and agricultural export

The European Retailers Group (Eurepgap Protocol for fresh vegetables and fruits) set out a framework for good agricultural practices, which includes crop management and quality control processes/procedures both at commercial and small-scale basis. Exporting companies in Zambia like Agriflora and York Farm that subcontract are required to supervise the crop management and quality control, training and provision of other necessary requirements to outgrowers. The Eurepgap defines minimum standards regarding social, environmental and food safety, acceptable to leading retail groups in the European Union (EU). The Eurepgap Protocol is effective in September 2003.

The EU has passed new legislation, which came into effect on April 1, 2003 that requires 80% of all flower imports to be subjected to inspection at EU borders as part of concerted European efforts to control on pests and bugs. This measure has affected all ACP countries. To mitigate the effects of loss/destruction of fresh flowers at EU borders, the Zambia Export Growers Association (ZEGA), in collaboration with Ministry of Agriculture and Cooperatives conduct extensive examination of each consignment of fresh flowers at the point of exit – Lusaka International Airport.

Exporters of organic products to the EU market are now needed to submit proof of their products, which are in line with EU customs. This legislative change was effective on November 1, 2002. This regulation lays down the main production, control and labelling standards for organic products. Monitoring of this new measure is being done by individual EU member states. Exporters are required to stipulate exact quantities of each separate product of the consignment; control certificate has to accompany the goods (together with other original documents like invoice, bill of consignment, weight list etc) in order to be checked and endorsed by customs authorities in the EU. Customs also check whether the EU importer has an import license for the exporter's product. Besides

the exporter's certifier should be EU accredited. This procedure is valid until 2006 when it shall be evaluated.

Fisheries

The fishing sector is a notable economic activity in rural parts of Zambia but often overlooked in the analysis of agriculture-allied activities.³⁰ The industry has two sub sectors– fresh water fishing (capture fisheries) and aquaculture or fish farming. The source of fresh water fishing consist of main rivers, natural and artificial lakes, flood plains and swamps. The major sources are lakes Bangweulu Mweru-Wantipa, Mweru – Luapula, Tanganyika, Itezhi-tezhi, Lusiwasi, Kafue River, Upper and Lower Zambezi River and Lukanga Swamps. There are over 400 known species of fish in these fisheries. The fishing industry is a major source of employment in the rural areas. There are about 300,000 people employed in the various operations of the industry, which contributes about 3% of GDP.

Exploitation of “capture fisheries” is carried out by both commercial and artisanal fishers. Commercial fishers usually exploit deep-water species such as Kapenta (*Limnothrica miodon*) and Bukabuka, while the artisanal fishers exploit shallow water species. Commercial fishery is characterized by high investment, while Smallscale or artisanal fishery is characterized by very low level of investment. Production has not increased in the last decade or so due to a decline in per unit of effort in some major fisheries. Some popular species such as Mpumbu (*Labeo altivelis*) are becoming endangered species. Estimated production including that from aquaculture is between 65,000 – 70,000 metric tons. This is below the estimated national demand of 100,000 metric tons.

Commercial fishing is confined to fisheries where there is the reasonable development of infrastructure, such as roads, easy access to an urban centre and power. These conditions obtain to less or greater degree on Lake Kariba, Lake Tanganyika, Lake Bangweulu and Lake Mweru–Luapula. In fisheries where there is commercial fishing, artisanal fishers benefit from some of the developments that take place such as roads and shops for basic needs.

Though there are a few firms involved in fish exports to the regional markets, Zambia has not explored the potential of fish exports unlike countries in the region such as Tanzania, Kenya and Uganda.

An assessment of the trade

Contrary to the common arguments by business in Zambia that they face unfair competition from other COMESA countries, a study commissioned by the World Bank and the Ministry of Commerce and Industry revealed that there was a good measure of import protection despite the removal of quantitative import controls and tariff reforms. It is estimated that enterprises selling in the domestic market and facing competition from outside the COMESA area had effective rates of protection ranging from 40 to 70 percent. This means that enterprises that faced competition from duty paying imports

³⁰ This the first time that the SPA is including an analysis of the fishing industry and hence the necessity of describing the sub-sector in slightly more detail.

received more than enough protection to run efficiently provided they were reasonably well suited to Zambia's comparative advantage. However, the study found a number of import competing firms face difficulties:

- Businesses that faced competition from COMESA imports but got their material inputs from outside the COMESA area;
- Activities whose output was exempt from customs duty, e.g. education goods, health materials and government purchases; and
- Activities competing against smuggled imports.
- To sum up, the liberalisation policies of the government have had a number of effects on the competitiveness of production in the Zambia. Some of these are:
 - The removal of transport and other subsidies and services to agriculture has adversely affected small-scale producers and increased urban food prices.
 - Increased competition and more open trade regimes have suppressed price increases, but also caused difficulties for some companies.
 - The decrease in controls has created opportunities for new producers and consumers.

Lack of access to credit due to high interest rates and insufficient demand are the most important causes of poor business performance. Those enterprises involved in less competitive activities have to shake up, while others still need to get used to operating in an uncontrolled market environment and learn to fend off import competition. It will be seen later that market liberalisation proceeded against the backdrop of an escalating financial crisis. This coincided with the lifting of controls on interest rates and measures to tighten the money supply. Farm loan interest rates went up from 50 percent to 120 percent and many farmers went under.

6.6 Profile of non-agricultural products

According to 2003 statistics, manufacturing sector in Zambia is considered as the third largest sector in terms of GDP contributing 10.9 percent of the GDP. The other two sectors which contributed higher to the GDP were retail trade (18.8) and agriculture (15.3%). Mining which used to be the largest contributor to the GDP accounted for 16.7 % in 1994 has declined to 7.8% in 2003. The better performance of the manufacturing sector indicates that the sector has been growing since the initial shock of competition when the economic liberalisation programme was started in the early 1990s.

Sector profile

The market structure of manufacturing sector has undergone significant changes since the introduction of liberalisation programme. During the first decade of liberalisation (1990s) number of industrial establishments, notable among them include several textile and clothing mills, were closed down. For instance in 1990 there were 31 textile mills and 34 apparel producing firms. This has reduced to single digit figures in 2003. At the same time some new firms in sub sectors such as food processing, leather, copper cables, etc. came up. A few sectors that were dominated by monopoly companies in sectors such as cement and sugar could not only withstand import competition but also penetrated to regional export markets. Since the copper export revenue were critical for the supply of foreign exchange, it became necessary to privatise the mines to enhance efficiency and to reduce the monopoly power of the state owned firms. As a result of privatisation programme, several small and medium sized mining and manufacturing firms based on metals and minerals came up.

One could see several reasons for the slow growth of manufacturing sector in Zambia. First of all, the economy is relatively small and land locked and it depended on the export of predominantly one mineral, copper. The metals exports provided comparatively good returns in the 1960s and 1970s, which perhaps did not compel Zambia for diversifying into manufacturing. Secondly, the quarter a century long state controlled economic system since 1964 led to the domination of one or two large enterprises in some sub-sectors. Third, the small sized nature of the manufacturing sector makes it highly amenable to inter-locking directorship and domination by a single multinational company in different sectors. For example Lonhro and the Commonwealth Development Corporation (CDC) control a number of firms in sub- sectors. Manufacturing firms in Zambia in general produce for domestic market and not regional and international markets.

The share of manufacturing sector to the overall GDP of Zambia in 2002 was 10.7 %. The sector mainly constitute food, beverages and tobacco, textiles and leather products, chemicals, rubber, plastics, wood and wood products. Among the category, food, beverages and tobacco alone contribute about 60% of the manufacturing GDP. The other growing areas of production and also export interest are textiles and leather. The textile and leather sector have been benefited by improved access to markets under trade

arrangements such as COMESA, AGOA, etc. To add up, the above-mentioned sub-sectors accounts for about 90% of the total manufacturing GDP as of 2003³¹.

Table. 3.1 Profile of Manufacturing Sector
(Billion Kwacha at current Prices) | US\$= 4700 Kwacha

Products	Year 1999	Year 2000	Year 2001	2002 (provisional)
Food, beverage and tobacco	497.8	613.9	768.4	1,024.0
Textiles and leather	139.0	180.4	224.2	285.6
Wood and wood products	53.7	64.1	89.9	120.5
Chemicals, rubber and plastic	50.8	85.8	111.3	142.6
Fabricated metals	18.0	22.9	23.0	20.8
Other				
Total – Manufacturing GDP	808.5	1,027.3	1297.2	1693.2

Source: Economic Survey, 2002, p.12

The decline of copper prices and the subsequent down turn of the mining industry have its adverse impact on the growth-manufacturing sector in Zambia. Further, the liberalisation of the economic and especially the trade regime led to easier imports. As a result many of the manufacturing firms lost their domestic market to imported products mainly from South Africa and Zimbabwe. At the same time many domestic firms were unable to exports due to high input cost/cost of production and low output quality.

Manufacturing exports

The non-traditional exports earnings of Zambia accounted for US\$ 326 million in 2002. This includes mainly manufacturing and a few agricultural and horticultural items such as fresh flowers and barley. The major exports items in this category includes gemstones, copper wires, gold bar, cotton lint and sugar. The exports of sugar increased as a result of the enhanced quota by EU. Whereas copper wires gets duty free access in the Southern African Customs Union (SACU) countries. COMESA FTA also facilitated the increased export of copper wires to regional markets such as Kenya.

The value of total imports to Zambia in 2002 was estimated at US\$ 1,117 million. Out of this figure, US\$ 197 million was on imports of goods and accessories for mining/metal sector. The poor performance of the metal sector and the decision of AAC to pull out of KCM caused the decline of imports, which was US\$ 310 million in 2001. The other major imports include crude oil, food items- maize, fertilisers, automobiles, etc. The major sources of import are South Africa, Zimbabwe, UK, Japan, etc.

According to the trade data of 2003, the total import of Zambia was for ZK 7157,670 mn and the total export was for ZK 4479,190 mn. Out of that ZK 34860 mn was re exports and ZK 4444,330 was the export volume of domestically produced goods. The largest

³¹ GRZ, PRSP, 2002-2004, p. 63

import items in 2003 include machinery and transport equipment, chemicals (urea, fertilisers, sulphuric acid, herbicides, insecticides, and fungicides), food and live animals, fuels and lubricants and miscellaneous manufactured materials. The major trading partners for imports were South Africa, UK, Kenya, Japan, Hong Kong, China and Zimbabwe. As regards the role of trade groupings for imports, COMESA stood top where as exports SADC is prominent.

Manufacturing imports

Zambia's major export items in 2003 were manufactured materials such as refined copper and copper articles, cobalt products and metallurgy and semi precious stones. These products accounts for a major share. The major exports markets were UK, South Africa, Tanzania, Switzerland, India, Japan, China, Hong Kong, Kenya, Malawi, and DRC. The purpose is to assess the possible effect of import liberalisation. There will a decline in government revenue, in case of reducing tariffs in the short run.

Revenue from tariffs (external trade tax) accounted for 840.6 billion Kwacha in 2002. Out of this value added tax stood at K 470.5 billion and the collection from import tariffs were K 367.1 billion. In terms of revenue effect, external tax is higher than the taxes on domestic trade of goods and services, which stood at K. 764.4 billion in 2002. The revenue from tariffs is coming down due to higher proportion of items are charged either zero VAT or exempt from VAT calculation. The high value finished goods falling under final consumption category has a duty rate of 25%.

Zambia's interest in NAMA negotiations

Reference on Market Access for Non-Agriculture Products (NAMA) contained in paragraph 16 of the Doha Ministerial Declaration. As per the paragraph, ministers agreed to commence negotiations, based on modalities to be agreed, aimed at reducing or eliminating tariffs, including the elimination of tariff peaks and escalations, and non-tariff barrier particularly on products of export interest to developing countries. The modalities would include appropriate studies and capacity building measures to assist least developed countries to participate effectively in the negotiations.

Zambia has not been actively involved in NAMA negotiations at the WTO or at the Doha round as it is not a key exporter of manufacturing products. However, it has some interest in getting better access for textiles and clothing, leather and metal fabrications.

Exports interest

Cotton yarn

The UR binding rate on cotton yarn is 3.7 to 12% in the US. However, AGOA made it zero. It is 13-17 % in Japan, 25-40 % in India and 15% in Egypt. For fabric, it is . 15.5 % in US, 8% in EU and 30% in Egypt. Table 3.2 provides the tariff rates of some of the products where Zambia has an export interest. They are Copper Products, Soap, Wood, Gemstones, Cattle leather etc.

Table 3.2 Uruguay Round Bindings on Products of Interest to Zambia- selected countries

Product	EU	US	Japan	India	Egypt
Copper (Ch 74)	3.0 – 5.2%	0-3%	3%	None	30-60%
Cotton yarn (HS 5204-5207)	4-5%	3.7-12%	13-17 y/kg	25-40%	15%
Cotton fabric (HS 5208-5212)	8%	3-15.5%	3.7-7.6%	None	30%
Soap (Ch 34)	0-4%	4-6.5%	0	40%	40-60%
Bovine Leather (HS 4104)	6.5%	12-30%	12-30%	12-30%	20-30%

Source: Nathan Associates, 2003

The table shows that there are still certain amount of tariff which affect Zambia’s manufacturing exports to the developed countries. However, there are also high tariff in some of the developing countries, which Zambia has an export interest.

Though Zambia is a producer of cotton, it has not actively supported the cotton initiative led by a group of cotton producers from West Africa. Perhaps, it was felt that countries sponsoring cotton initiative had a single point agenda of striking a deal cotton even at the cost of negotiating Singapore issues—which was not the position of Zambia.

As regard import interest, in case of reduced in tariffs for inputs will it be beneficial to the local industry. For instance, if there is a reduction of tariffs on fertilisers-what will be impact on agriculture production and (or food security). At present tariff makes the cost of import to Zambia expensive, which has its detrimental effect on the development of manufacturing sector since a large number of inputs for manufacturing sector are imported.

Perhaps, since Zambia does not have any major manufacturing export sector, it has not shown much interest in the negotiations as well. Further, most of its export to the developed countries are facing low tariffs. However, there are arguments that Zambia’s export to some of the developing countries does face high tariffs.

During the pre Cancún national consultation, Zambian Civil society’s proposal³² with regards to market access for non-agricultural products were the following:

- Studies should be conducted to determine the effects of each tariff reduction proposal on trade, taking into account the effects on imports, exports, tariff revenue, economic welfare and output as well as long term and short term costs and benefits.
- Least developed countries should be exempted from tariff reduction

³² Documents of the Pre-Cancún Preparatory meeting

- LDCs must be given maximum credit for unilateral liberalization
- Targeted technical assistance should be provided to LDCs and address supply side constraints
- Erosion of preferential margins due to MFN tariff reductions should be offset by establishing compensatory and other appropriate mechanisms to fully address the impact of erosion of preferences including measures that promote exports of LDCs
- Developed countries should eliminate tariff peaks, high tariffs and escalation as well as non-tariff barriers in particular to products of export interest to developing and least developed countries.
- Developed countries should provide duty free and quota free market access for all products of LDCs before the 5th Ministerial Conference along with harmonized, flexible and simplified rules of origin that take into account the industrial capacity of developing and least developed countries; and
- Demand that Developed countries should commit themselves to deeper reduction while providing flexibility for gradual reduction of tariffs by developing countries

At the Cancún Ministerial, Zambia's position on NAMA³³ was that:

- Exemption of LDCs including Zambia from any further tariff reduction commitment
- LDC products must be accorded scheduled quota and duty free market access
- With respect to modalities for tariff cuts, Zambia was of the view that whatever formula is adopted must address both tariff peaks and escalations for products of interest to LDCs

³³ Post Cancún Briefing by Zambian delegates to Cancún held at Lusaka on 19 October 2003

6.7 TRIPs and public health agreement: concern of Zambia

The flexibility contained in the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreements and the Doha mandate that the TRIPS Agreement does not preclude the right of members to take actions that will allow for easy access to medicines to combat communicable diseases in particular HIV/AIDS, tuberculosis, malaria, anthrax and other epidemics are very relevant for Zambia. The impact of TRIPS in terms of economic and social costs of establishing patent systems should not be underestimated. Inadequate systems for the processing of patent applications, examination of patent specifications and claims and supervision of the exercise of patent rights can increase barriers to access. That means since TRIPS is not prescriptive in terms of patentability, it is imperative that adequate studies are to be carried out at the national level while enacting TRIPs complaint legislation. Some circumspection is warranted in relying on models, which are largely based on the experience of other countries.

The understanding arrived just before the Cancún Ministerial on TRIPS in handling public health emergencies has a lot meaning for Zambia.

1. Public health related

HIV/AIDS prevalence

The prevalence of HIV/AIDS has had a significant adverse impact on the Zambian economy. Given that AIDS will affect the working age population, the quality and quantity of the labour force are affected. High rates of mortality affect productivity, recruitment and in particular, lead to loss of skilled personnel. According to the Health Survey of 2001-2002³⁴ 16 percent of all adult population aged between 15 and 49 years (or about 900,000 adults) were reported to be HIV positive. There is projection that the number of HIV infected persons will increase to 1.1 million by the year 2010 if adequate preventive measures are not done.

In the recognition of the link between poverty and ill health and inadequate health care system, it is important to note that for Zambia, ill health is more likely to lead to further impoverishment amongst the poor. For the country, meeting the health needs of the poor is an important means to prevent the increase of poverty as they suffer a heavier burden of disease.

In Zambia where services are poor and incomes low, taking time off on medical grounds jeopardizes the future economic situation for the poor. Poverty can also be linked to poor health in that the poor lack basic needs such as social and healthy services. To begin with, there is a growing recognition in Zambia of the two way link between HIV/AIDS and poverty. HIV/ AIDS is inexorably consuming more resources, which means that less is available for other life threatening diseases such as malaria cholera³⁵.

³⁴ Economic Report 2002, p. 110

³⁵ PRSP 2002-204 p. 84-85

AIDS and AIDS related diseases have become prominent, with the number of households experiencing chronic illness and death rising. In 1998, 17 percent of rural and 12 percent urban household and experienced an HIV/AIDS-related death. TB-related cases have risen, and other diseases continue to have a negative impact on the health status, including malaria, diarrhea, and respiratory tract infections that place a heavy burden on the health sector. Moreover, the country has suffered in recent years from epidemics of cholera and measles. Equally, the health situation of the children has not improved, with acute respiratory infections and malnutrition serious problems; according to the 2001 UNICEF. Report on the state of the world's children, 42 percent of under-five in Zambia are stunted³⁶. Within the framework of an integrated approach to health care, the following has been identified as priority areas:

- Malaria-within the framework of the Roll Back Malaria initiative.
- HIV/AIDS, TB and STI through the National HIV/AIDS Strategic Framework³⁷.

Considering the state of health care system in the country, the recent understanding on Public health flexibility in TRIPs could provide opportunity for Zambia to access medicines or set up production facilities. Though, it is early to judge the immediate impact of the above in the ground level since the country requires resources to utilise the flexibility.

Zambia hardly has any drug manufacturing capability. Most of its drugs are imported from both developed and developing countries. Ever since the TRIPs agreement the prices of drugs have increased considerably. Since the flexibility granted under TRIPs, there has not been much movement in Zambia at the government level for delivering anti-viral drugs or setting up local production facility. However, the flexibility for import will benefit the needy as NGOs working in the health sector could make use it for the provision of essential drugs.

³⁶ PRSP 2002-2004, pages 84

³⁷ Ibid, p. 89

6.8 Zambia and trade facilitation

Trade Facilitation (TF) was one of the four Singapore issues, which came up before trade ministers at Doha and also at Cancún Ministerial Conferences for discussion. As in the case of other three Singapore issues, TF was mainly pushed by the rich countries for inclusion at Cancún agenda for negotiations with the objective of reaching an understanding on the subject.

At the Doha Conference of 2001, ministers instructed the Council for Trade in Goods (CTG) of the WTO that until 5th ministerial “to review and as appropriate clarify and improve relevant aspects of Article V, VIII and X of the GATT 1994 and identify the trade facilitation needs and priorities of members, in particular developing and LDCs”.³⁸

The three above articles cover topics viz. (1) freedom of transit, 2) fees and formalities connected with import and export (3) publication and administration of trade regulations respectively. As a follow up, the post Doha work programme of the CTG considered the core agenda item of paragraph 27 viz. the modalities for the review and clarification of the three articles, trade facilitation needs and priorities of members especially poor and developing countries, technical assistance and capacity building.

Zambia’s position

During the pre-Cancún preparations Zambia joined with other LDCs and developing countries in opposing the launching of negotiations on the new issues including trade facilitation at Cancún. African Union trade minister meeting in Mauritius, did re-affirm the longstanding position of African countries that the Cancún Ministerial Conference should focus on addressing the developmental concerns in the existing agreements, instead of starting negotiations on new agreements, particularly on the ‘Singapore issues’.

In a declaration adopted unanimously in Grand Baie, Mauritius, on Friday June 20, 2003 the trade ministers noted that ‘WTO members do not have a common understanding on how the ‘Singapore issues’ should be dealt with procedurally and substantively.’ And taking into account the potential serious implications of these issues on their economies’, they called ‘for further clarification on these issues to continue’. At this background, Zambia stood with other countries at Cancún in opposing the subject for negotiation.

The second LDC trade ministers meeting held in Dhaka on 31May –2 June 2003, viewed that ‘the current approach towards trade facilitation pre supposes the establishment of common procedures, rules and regulations for the movement of goods. Implementation of such laws and procedures will be very costly for the LDCs, which they are unable to afford at this stage. LDC’s institutions should be strengthened to facilitate trade. It also suggested that work on TF in other institutions should be taken into account in the current work programme of the WTO. Current efforts to assist the LDCs outside of the WTO framework in this area should continue.’³⁹ Zambia being a participant of the Dhaka

³⁸ Paragraph 27 of the Doha Declaration, 2001

³⁹ Dhaka Declaration of LDCs, 2nd June 2003.

process endorsed the above suggestions and it consistently followed position even at Cancún.

However, among Singapore issues, TF received the highest amount of support at Cancún. This includes support from some of the developing countries. What are the pros and cons of an understanding on trade facilitation from the perspective of Zambia?

Zambia has not undertaken any evaluation or study on the pros and cons of trade facilitation. At present the export and import involved cumbersome procedures. However, being a land locked country, Zambia faces enormous amount of difficulties in export and import. One of the issues of course very relevant to Zambia is transit of goods and services, customs valuation, expediting the movement, release and clearance of goods, including goods in transit. The Doha declaration focused on the above aspects – but without giving details as CTG is expected to review and clarify on how to formulate multilateral understanding in this area. The Doha declaration underlined that trade facilitation needs of poor and developing countries are a priority.

At Cancún, rich countries pushed for launching a negotiation on the subject. However, most poor countries felt that any multilateral commitment on implementation of this subject going to be an expensive exercise, which will over burden the poor. The experience of poor countries with so-called technical assistance offer enshrined in some of the previous agreements have not been sufficient to mitigate the burden of implementation. Some poor countries view that though improved transparency and reduced procedures on import/export matters will be more advantageous to the rich countries in doing business with the poor.

During the CTG process developing country members have suggested the exercise consists of merely of a review and not negotiations. At the same time, developed countries including EU and Japan have called for the streamlining the processing of imports under article VIII.⁴⁰

However, the there was a feeling among some developing and least developed countries and most rich countries that an agreement on trade facilitation will be a beneficial tool for both rich and the poor. Those who support the initiative feel that the arrangement will bring in guidelines for the speedy clearance, processing and customs valuation of goods at the port of entry and exit. There is also large potential for an understanding during the Doha round on issues affecting trade of landlocked countries such as Zambia.

As regards, the non state actors position evolved before Cancún on Singapore Issue especially TF was that Zambia should prioritise key areas of development issues such as assistance to develop infrastructure for trade in particular inter linkages in the transport system to overcome the problem of being land locked. Further, multinational and regional financial organizations and bilateral and multilateral donors should give special attention to the building of infrastructure to enhance attractiveness of least developed countries to foreign investors.

⁴⁰ RIS, World Trade and Development Report-2003, New Delhi. p. 52

Civil society in Zambia also recommended that in view of the overwhelming workload generated by the Doha Development Agenda, Zambia like most LDCs has limited resources to follow negotiations and evaluate the implications of negotiations on Singapore issues on the economy. Therefore; Working Groups should continue work on the process of clarifying these issues; and Effective technical assistance and capacity building should be provided to developing and LDCs to conduct assessment studies on the implication of these issues on their economies

Zambia's position on Singapore issues at Cancún

According to the trade Minister⁴¹, the two opposing camps of developed and developing countries, one who are pro-Singapore issues against those of the non-Singapore issues contributed to difficulties in striking a balance for agreement. As a result the Zambian delegation was surprised to be presented with a text on 13 September 2003, which had barely changed from the first revised text on nearly all issues impinging on the effective participation of developing and least developed countries in the multilateral trading system. Instead, the text had drastically been transformed on Singapore issues. The text was proposing commencement of negotiations on Trade Facilitation and Transparency in Government Procurement. The other two issues, Trade and Competition Policy and Trade and Investment were referred to their respective working groups in 'Special Session'. Notice the phrasing used 'convene the working group in Special Session'. This is basically negotiations and is qualified by cross-reference to Agriculture and non-Agriculture market access. The dates for adopting modalities on these two issues were skilfully linked to those for Agriculture and Non-agriculture market access. Surely, what does that mean? The text is actually proposing to commence negotiations on all four issues using misleading language. Zambia did not endorse the new text and stood by its previous position.

⁴¹ Presentation at the Post Cancún briefing, Lusaka 19 October 2003

6.9 Services sector in Zambia

Nature of services sector in Zambia

The services sector in Zambia contributes to nearly 60 per cent of value added to the Gross Domestic Product (GDP). Nearly 63 per cent of the formal sector employment derives from services sector.⁴² The main tertiary sector activities contributing to the GDP are wholesale and retail trade, banking and insurance, real estate and business services, transport and storage facilities.⁴³

However, the share of services sector to exports is relatively low. The major services exports are tourism, power, hotel and motels, temporary movement of people in sectors such as health, etc. The importance of services in export promotion of the country has not been well recognised. The sectors, which have got some sort of plans for development, are tourism, construction, electricity, hotel/motel and recreation. In 2001 government devised a master plan for tourism development through guiding investments in the country. It also introduced new programmes such as eco-tourism, sports and cultural tourism. In recent years a number of hotels and guesthouses opened in tourist locations. As part of the tourism development plans Zambia participate in regional and international tourism fairs.

The existence and quality of service sector and infrastructure in any country is a key determinant of foreign investment and also expansion of foreign trade. The provision and quality of services greatly determines the cost of doing business including its viability. During the early years of independence, Zambia was well disposed and managed to set up considerable networks of service sector infrastructure ranging from hospitals, schools, roads connecting all provincial and district centres in the country, airports and the railway link to Tanzania, etc. However the dual role assumed by Government to also be an enterprise owner and manager of the nationalised parastatals became too demanding in the face of declining public revenues since the mid 1970s. As a result the maintenance and renovation of the utilities became arduous task. A change of approach was necessary though rather late by introducing cost sharing, and privatisation but again limited success was achieved during the 1990s and hence the deterioration of the services sector and public utilities.

Efficient transport and communications help trade, investments and economic growth. Zambia's transport and communications infrastructures are relatively poor by international standards. Further, the cost of service sectors is quite high which makes the business and trade uncompetitive. For instance the higher cost of telephone facility both fixed and cellular services makes international business communication pretty expensive to a Zambian firm. Further, this also affects the growth of Information and Communication Technology (ICT) especially Internet, email and e-commerce.

⁴² Ndulo, Manenga, Zambia and GATS negotiation- Presentation at a pre-Cancún meeting, 21-22 Aug, 2003 Lusaka

⁴³ Economic Report, 2002, p. 11-12

The railway network in Zambia is at the centre of the international routes linking Zambia and the Democratic Republic of Congo (DRC) to other neighbouring countries, as well as to the seaports of Mozambique, Tanzania, Angola, and South Africa. However, because of the poor state of the rail track, operating inefficiencies, and the increasing frequency of accidents, Zambia Railways' freight traffic declined from 4½ million tons to about 1½ million tons between 1990 and 1996. The shift from trains to road traffic is estimated to cost the Zambian economy US\$100–150 million per year in increased road deterioration and fuel costs.

Table 6. 1 haulage of goods by rail

Year	MT(Inclusive of local, exports, imports and transit cargo)
1998	1,412,730
1999	1,611,868
2000	1,457,245
2001	1,666,008
2002	1,887,000

Source: Economic Report 2002

Brief Profile of Some of the Services Sector/utilities in Zambia

Despite committing itself to complete privatisation of major services on sector during the 1990s, the government has not carried out privatisation of public sector entities dealing with utilities such as broadcasting, telecom, railways and energy. However, it allowed participation of private sector in a limited way in broadcasting and telecommunications- i.e in the cellular phone sector.

Communications

In broadcasting and communications, the government has allowed the entry of private sector subject to stringent licensing regulations. For instance, private broadcasts are allowed only limited news time. The growth of the free press and other media has been slow due to several factors whereas public media has been the mouthpiece of the government. Despite these drawbacks, there is considerable growth of competition in print-media. Restrictions continue in electronic broadcasting and competition in television is restricted to cable networks.

The telecommunication sector has been opened up for private participation in the providing mobile telephony. Even though the sector has been opened to private cell phone providers, the main carrier, the state owned Zambia Telecommunications Company (ZAMTEL) has yet to be privatised. Despite the available infrastructure, indicators of telephone connections show a relative decline. ZAMTEL does not seem to be seeking market expansion rather maintaining the existing share. Telephone connection per 1000 persons were 9.4 in 1999 and 9.0 in 2000. The small but significant increase in Internet hosts of 0.1 per 1000 persons in 1999 to 0.5 per 1000 persons in 2000 indicates a growing demand for communications services. However, the relatively higher cost of internet making it out of reach to the majority of the population.

It is evident that a high degree of market concentration exists in telecom sector in Zambia. Competitive behaviour and any serious effort to trade this service to other countries have yet to be seen. The sector regulator for communications authority allowed ZAMTEL to participate in Internet service provision in competition with its private sector providers, who are its subscribers. This is one of the sectors, which could come up for negotiations under GATS and Zambia should prepare for that.

Electricity

Zambia is well endowed with electricity generation potential. Power generation, transmission and distribution are undertaken by the main service provider, Zambia Electricity Supply Company (ZESCO) through its subsidiaries operating at divisional levels. The total installed capacity of the interconnected system is 1,623 MW but the available capacity is about 1,608 MW. Diesel stations are used for small township power supply but are now old and unreliable. Thermal and gas turbine power stations have an installed capacity of 138 MW and are only used to supply the mines in case of shortages. All together, ZESCO has three large hydro-generations plants and a number of small hydropower stations around the country.

Government has delayed privatisation of the power sector. There is the potential for multiple players in this sector, a potential for diversification of ownership throughout the generation, transmission and distribution structure. Generation potential is estimated at 6000 MW with a firm energy output of 33,500 GWh. So far only 28 percent of this potential has been utilised. The state owned ZESCO seems ill placed to promote large-scale projects for the export of electric power, stabilisation of power supply and improvement of rural electrification. There are suggestions that private participation of this sector is appropriate. But, competition pressures will remain unrealised if the sector is not disbanded into various units. Further, export opportunities have not been looked into while considering the development of the sector, though Zambia is selling electricity to a small amount to its southern neighbours, though there is large potential for its expansion. The value of electricity exports in 2002 accounted for US\$5.5 million.⁴⁴ The exports to South Africa and Zimbabwe declined in 2002.

The power sector is largely state owned. Though the power generation facility is unmatched by African standards, the power system losses are considered to be high at 11 percent of output and contribute greatly to the 65% financial losses.⁴⁵ Government has approved the power sector restructuring proposals drawn up by the Energy Regulation Board (ERB) with the involvement of stakeholders. According to the proposals, the sector will be broken up and wherever feasible, components sold out especially in generation and private sector participation will be done in distribution and supply. In order to expand the provision of electricity to rural areas a rural electrification Fund is being set up by charging levy on the existing consumers.

⁴⁴ Ibid, p. 66

⁴⁵ World Bank, Business Environment Group Competitiveness Indicators (website)

Water and sanitation

In 2000, the population that had access to safe water was estimated at 58 percent. Access to safe water and sanitation services was greater in urban areas, at 93 percent, than in rural areas, which had only 38 percent of safe water coverage. To increase the service delivery in this sector, the government established the Water and Sanitation Council (WSC) to regulate the commercialisation of the water supply and to promote private sector participation in this sector. To this end, seven water companies were established between 1999 and 2000 and an Asset Holding Company was established to provide water and sewerage services to mining townships in the Copperbelt province of Zambia. WSC is expected to exert competitive pressures on the utilities and municipal companies through more appropriate pricing and quality.

In addition, efforts are under way to deal urgently with deteriorating urban water systems by, inter alia, strengthening urban water management, rehabilitating water supply and sewage treatment facilities, and increasing tariffs and improving tariff collection so as to generate the funds necessary to operate the water systems on a more commercial basis. The government's objective is to ensure that 50 percent of the rural population and 100 percent of the urban population will have access to clean water and sanitation by the year 2004 (World Bank, Competitiveness indicators). This though is a tough objective in the face of the current slow progress in this sector. There have been studies on the possibility of private sector participation. However, this sector has not been considered for negotiations under GATS.

Banking and financial services

There has been several efforts during the 1990s to reform the banking and financial sector in the country. There are 16 commercial banks in Zambia. A few of these are local, but the sector is dominated by a handful of multinational banking institutions viz. Barclays, Standard Chartered and Stanbic Bank. The Zambia National Commercial Bank (ZANACO) is a state owned entity that enjoyed state support during the era of nationalised companies and is the only bank with branches in many rural areas. External pressure for its privatisation have persisted through out the period from early 2001 and in 2003 government decided to go for privatisation, mainly under pressure from the Donors. Delays may indicate government procrastination on some privatisation commitments as per enhanced structural adjustment facility.

During the early 1990s, a number of small-scale commercial banks emerged and set up branches in Lusaka and the Copperbelt provinces. The proliferation of small-scale nationally owned commercial banks demonstrated how easy it had become to establish a commercial bank. It would seem that many of these banks were set up to provide cheap capital sources to their owners. Many of them could not survive competition and collapsed due to their own inadequacies. Their collapse revealed weaknesses in the regulatory frameworks, inadequate supervision called for strengthening of banking laws, under-capitalisation, insider borrowing and unqualified banking practices were common among these banks.

As a result, Zambia has now made considerable improvements in enhancing bank supervision and regulation of commercial banks by the Bank of Zambia (the country's Central Bank). The Banking and Financial Services Act of 1996 has regularly been amended to bring it into line with best practice and internationally accepted standards for licensing, prudential regulation and supervision. These measures have raised standards of responsibility, accountability, and professional competence and integrity among directors and senior bank personnel. In 2001, the Banking Act was amended to accommodate for the regulation of micro-finance institutions and the money-laundering bill became law.

Improvements in the bank and non-bank financial regulatory framework have not changed the nature of competition. Anti-competitive behaviour is common and abuses of dominant behaviour are implied in many of the services provided. The interest rate and service charges of the banking institutions are quite high which makes it difficult for the poor people to access these services.

Insurance sector

Zambia allows private sector participation in this sector but in a limited way. There are a few private firms functioning in the sector, some of which are service providers from outside (GATS- commitment).

Tourism sector

Tourism is referred to as one of the world's fastest growing economic sector, currently the world's largest employer and soon to be the world's largest industry. Zambia has a comparative advantage in tourism, which value a wide range of virgin natural environment with a variety of wildlife, beautiful lakes and waterfalls including the world famous Victoria Falls. Tourism is promoted for its potential revenue benefits and as a means of attracting FDI. The revenues from export of tourism has improved substantially since liberalisation and it has the capacity to contribute to the overall economic development. However, the investment in this sector is relatively weak. The available evidence indicates that the sector has not been very effective in attracting neither FDI nor domestic investment. The sector has, created a large number of direct and indirect employment opportunities in and around the Livingstone, Kariba, Lusaka, etc. and other related business opportunities such as transport have also arisen.

However, it should be mentioned that most of the revenues in the sector is garnered through networks and what is commonly referred to as packaged tours. Not so much money is made by way of room occupancy. One of the reasons for this is because international tour operators in Europe, America, Australia and Asia have a sophisticated network of packed tours where payments are made at source in these countries and as a result the profit is divided between the local and Foreign Service providers.

It is also worth noting that the Zambian government has increased visa fees in the 2003 Budget from ZMK200,000 (US\$ 40) to ZMK 1,200,000 (US\$ 240) in some cases. The impact of this budgetary revenue measure is that the fees seem to be very high and would therefore not attract tourists to Zambia. It is envisaged that if government was to reduce tax on tour operators, more tourists would visit the country making the government raise

more money from the sector. The fact is that the tourism sector in Zambia still remains largely undeveloped and its enormous potential has thus not been fully exploited.

If the overall impact of tourism is to be positive and sustainable it is vital that the sector operates within an integrated economic framework in which inter-sectoral linkages are actively promoted from the local to the national level. There are sectors, which are closely linked to tourism, hotel and motel, transport, eco-tourism, handcraft, art and music, etc. Inter-sectoral coordination has to be institutionalised so that decision-makers and stakeholders from relevant sectors contribute to the development of national tourism policy and opportunities for inter-sectoral linkages are fully exploited.

MNP- export of skilled manpower

What are the opportunities available for that option? Can Zambia utilise this option. Zambia has a limited pool of skilled people and large unskilled and semi skilled workforce who look for temporary business opportunities in other countries, as medical professionals, consultants, accountancy service providers, etc.

Zambia and GATS negotiations

Trade in services became part of the General Agreement on Tariffs and Trade (GATT) during the Uruguay Round negotiations (1986-1994). At the end of the Uruguay Round trade in services become an agreement called Geraral Agreement on Trade in Services (GATS) and this was an integral part of the Marrakesh Agreement of 1994 which established the World Trade Organisation (WTO).

As per the Uruguay Round Agreement of 1994, services was one of the built-in-agenda items for continuous negotiations. Unlike many other areas, member countries have gone ahead with negotiations on areas such as financial, accountancy and insurance services, electronic commerce etc, since 1995. The relevance of services sector is evident that it is one of the major areas for negotiation under the Economic Partnership Arrangement (EPA) of the Cotonou Agreement of 2000.

Under the Uruguay Round Agreement on the General Agreement on Trade in Services (GATS), Zambia made commitment for opening up of five sectors, viz. business services, advisory, construction, health and tourism⁴⁶. However, the subsequent national plans did not seem to have given much relevance to this international commitment. For instance Zambia has not made changes in its medical policy, which allows the participation of medical firms and professional to operate in the sector as per the WTO. PRSP highlights the importance of training and infrastructure in tourism⁴⁷, private sector has suggested of focusing on e-commerce.

The Council for Trade in Services (CTS) of WTO that coordinates the negotiations on services adopted the guidelines and procedures for negotiations in March 2001 and it was agreed at Doha (paragraph 15 of Doha Declaration) that request-offer for (liberalisation

⁴⁶ Page, Sheila, Streamlining Zambia's Trade Agreement to Support Export Diversification, ODI (2002) and Zambia's GATS Commitments paper

⁴⁷ GRZ, PRSP- 2002-2004

and negotiation by member countries) as the basis of negotiating market access in services. The dates set for initial request by member countries was 30 June 2002 and initial offer by members is set for 30 March 2003. **(For details of GATS negotiations see annexure 3)**

Zambian proposal on services at the WTO

Zambia has taken initiative in working with other developing and LDC countries on GATS negotiations at the WTO. In the meeting of the CTS held on the 9th December, 2002, Zambia submitted a proposal on modalities for the special treatment for least developed countries (LDCs) in the current services negotiations⁴⁸.

Zambia in its proposal on behalf of the LDCs demanded that LDCs should not be requested to remove conditions attached to new market access commitments or make additional commitments under the GATS Article XVIII on their domestic regulation;

- Further, full market access and national treatment be granted to LDCs in sectors of interest especially; that members facilitate access to LDC services through intergovernmental cooperation and through removal of business practices that restrain the competitive participation of LDCs;
- That LDCs should not be requested to grant 'credits' for autonomous liberalisation (AL).
- It demanded that members must finance training for LDCs and technology transfer to these countries so as to enhance their participation in the negotiations.

Following the submission, members encouraged the LDCs to avail their specific sectors and modes of interests to trading partners so that fair consideration could be given to their export interests in the offers to be made. However, it seemed that the major trading partners could only be sympathetic on the issue of not seeking 'credits' for all from LDC members.

Request- offer and Zambia

As the work programme of the services, Zambia failed to make initial requests to any of its partners. It has however, received requests from five WTO members namely Mauritius, Egypt, US, Japan and the EU. Despite this delay, Zambia would be able to formulate offers any time during the current round. It is not clear the details of requests received from all the trading partners of Zambia.

Zambia received a comprehensive list of requests from EC and its member states. The requests contains market access and national treatment in the following sectors:

- Professional services
- Business Services
- Telecommunication services

⁴⁸ ICTSD, Bridges Weekly Trade Digest

- Financial Services

The EC also invited Zambia to take Horizontal Commitments for the supply of services under model 4. In the category of mode 4 EC has sought clarifications of the definitions on terminologies used in the Zambian schedules on areas such as Intra corporate transferees and business visitors. In the telecommunication services, EC asked Zambia to open up a number of sub sectors to full competition and to foreign investment, particularly data transmission services.

National preparations

Since the country does not have any formal structure of consultation on WTO matters, it has become difficult for the policy makers and the trade negotiators to evolve credible and representative views of the stakeholders and to come up with specific negotiations inputs. However, the Ministry of Commerce, Trade and Industry (MCTI) in collaboration with UNCTAD hosted a national workshop at Lusaka in October 2002 with the objective of preparing itself to the services negotiations⁴⁹. Some of the stakeholders did consult on the subject, though the inputs from the stakeholder could not have been very encouraging. The meeting also proposed the constitution of a national working group on services. However, there was not much progress in this direction.

The large potential of services sector could be used for enhancing export and reducing poverty. In order to benefit from the services trade, the country should devise a sector-focused approach by identifying the strong points using natural, static and comparative advantage such as tourism, hydroelectric power, provision of health services, etc. However, the following issues may be important to consider while preparing for GATS negotiations.

What are the focus areas of Zambia under GATS during the new round? I.e priorities identified by the government. Zambia has not identified its sector focus for opening up offers.

What are the critical sectors, which were not identified by the government, which could possibly play a key role in services trade and also facilitating the development of other tradable sectors? The service sector negotiation has not come up for serious discussion in Zambia. During the run upto Cancún, government utilised services of consultants for advise on appropriate strategies.

Among the MNP sector, areas where Zambia could benefit is temporary movement of skilled personnel in sectors such as health (nurses), accountancy, education, where Zambia has a large pool of human resources available. However, the country has to look for markets for its skilled people. Zambia should devote more attention on services sector negotiations by assessing the areas, which it could export and also looking at the areas where it could benefit from opening up. For instance, opening up telecom, financial services could bring down the high cost and would benefit the poor.

⁴⁹ Proceedings of the National Preparatory Workshop on GATS, (October 2002) Lusaka

6.10 Zambia's approaches to the WTO DDA negotiations and Cancún Ministerial⁵⁰

As a member of the WTO Zambia has been participating in the DDA negotiations. It has been especially active in TRIPs, S&D and Services negotiations. However at the national level, there was no serious consultation on trade policy and the WTO matters. Zambia does not have a clear trade policy. There is no structured national consultative body on the WTO matters. However, there is a body on Cotonou but it is inactive to say the least. Consultation stake place with the civil society and the business sector occasionally. Some of which are at the initiative of the donors and stakeholder associations. The workshops were on the services, AGOA, Cotonou, etc are the issues in reference.

This is an attempt to explain the pre-Cancún, at Cancún and Post Cancún developments on the DDA and Zambia. Since the Doha ministerial there has been some amount of preparations at the official level such as participation in the LDC, AU, ACP-EU, COMESA and SADC meetings on the subject.

Pre Cancún national preparations

There has been some amount of preparations at the official level such as participation in LDC, AU, ACP-EU, COMESA and SADC meetings on the subject. Zambia actively participated in the LDC conference at Dhaka in July 2003.

A WTO National preparation workshop was held at Lusaka on 21st and 22nd August 2003 at the initiative of civil society groups. The workshop was aimed at preparing for the fifth WTO Ministerial meeting to be held in Cancún Mexico from 10th to 14th September 2003. This was following government's invitation for civil society to input into the government's position paper. The workshop was meant to provide an opportunity for civil society organizations, the business community and other private sector participants to input into the government position paper.

The workshop was officially opened by the Minister of Commerce, Trade and Industry said that government recognized the need for not making issues like WTO the preserve of government officials, political leaders and the MCTI. Civil society was often closer to the people and therefore are better placed to articulate the interests of the average citizen. It was therefore necessary for the government to engage civil society and the business organisations to influence the form and content of the government paper on WTO issues.

The trade minister said civil society should contribute to other negotiations going on under ACP/EU Cotonou agreement, the SADC trade protocol, COMESA Free trade area agreements and implementation of the Africa growth and opportunity Act (AGOA). He urged LDCs to become part of the globalisation process and to understand issues as they pertain to their individual countries. He said that government was concerned with the happenings in Geneva as little development has so far been made from the Doha Development Agenda especially relating to the Singapore issues. He lamented the fact

⁵⁰ The Pre and post Cancún Meetings in Lusaka (on 21-22 August and 21 October 2003)

that African states were not adequately represented and were generally ill prepared. He commended NGO's for the role they were playing in ensuring WTO issues were made known to the public.

Presentation of key issue papers

The papers presented can be divided into two categories-general and specific submissions. The first four papers provided much of the needed background and insights into the operations and objectives of the WTO and the technical issues and procedures regarding previous rounds of negotiations, the opportunities, prospects, and constraints surrounding WTO negotiations. Civil Society recommended that the WTO's Cancún Ministerial could advance a number of agenda items launched by the Doha Round of trade negotiations. In this regard, the following are some of the issues civil society would like to bring to the fore :

Zambia should prioritize key areas of development issues such as :

- Assistance to develop infrastructure for trade in particular inter linkages in the transport system to overcome the problem of being land locked. Further, multinational and regional financial organizations and bilateral and multilateral donors should give special attention to the building of infrastructure to enhance attractiveness of least developed countries to foreign investors;
- Debt relief to release funds to develop supply capacities to meet new market access. Civil society welcomes the HIPC initiative on condition that resources are used for social and economic (productive) development.
- Increased resources for the WTO Trust Fund to ensure that developing countries have sufficient finance to meet the costs of implementing WTO agreements and other international obligations.

Recommendations

Four critical thematic issues emerging from paper presentation sessions were identified for detailed reflection and deliberation. Four groups were formed, with each group assigned one thematic issue to discuss and develop precise recommendations.

The role of civil society organizations in the WTO

With respect to (i), it was felt that civil society has an important role to play in the WTO issues and should participate actively in all relevant negotiations, both at national, regional and global level. Two roles were identified as critical to civil society involvement in WTO matters. It was observed that Civil Society has an important role to play in trade issues and it's role should be strengthened even further. To accomplish effective participation of civil society in WTO issues will require implementing capacity building programs targeting civil society groups and raising public awareness on trade related matters at the local level.

Zambia's position(s) on agriculture and General Agreement on Trade in Services (GATS)

Zambia should negotiate, together with other countries, for duty and quota free access to markets in developed countries for agricultural exports of great interest to developing countries;

Lobby for the elimination of agricultural subsidies in developed countries; while encouraging agricultural subsidies in developing countries;

Lobby to streamline and develop a fair SPS measures and standards for agricultural exports from developing countries;

Lobby for increase flow of donor resources to support capacity building efforts in developing countries, especially those targeting the agricultural sector development and;

Streamline guideline for procurement and distribution of food aid. In particular, government should negotiate that food aid be provided only for humanitarian purposes and must be procured locally whenever stocks are available, and that all imported food aid must be properly labelled and be in compliance with national policy on GMOs;

Agreement on trade in services are very important for Zambia and that the on-going process of consultation must be enhanced but should not be rushed. The following two positions emerged on issues of GATS:

The position adopted was that Zambia is indeed ready to participate in the on-going process of consultation on GATS and that Zambia's capacity to understand issues related to the GATS must be strengthened. Zambia has already undertaken significant liberalization of its services sectors and should therefore lobby for credits for autonomous liberalization during the WTO ministerial conference in Cancún, Mexico.

The Singapore issues and TRIPS and public health

Group three discussed what position Zambia must take on the "Singapore Issues" and on negotiations on TRIPS and Public health during the WTO Ministerial Conference in Cancún, Mexico.

It was noted that Zambia should move very cautiously on new issues, competition policy, government procurement, transparency and investment related measures. Participants felt that negotiations on these issues should only begin after a careful assessment of economic, social, political and cultural implications have been completed and fully understood. Participants also stated that negotiations on any of these issues should be considered after all the pending issues from the Uruguay Round and the Doha Development Round have been tabled and resolved.

With respect to TRIPS and Public health, it was agreed that due to lack of manufacturing capacity in the pharmaceutical sector, Zambia is unable to take advantage of *compulsory licensing arrangement* under TRIP and Public health to produce generic drugs to respond to public health epidemics such as HIV/AIDS. Therefore, It was advanced that for countries, which lack the necessary pharmaceutical capabilities to produce drugs under the current *compulsory licensing* provisions should be allowed to import these drugs from countries such as India and Brazil that can produce them cheaply and efficiently. It was

thus resolved that Zambia should lobby vigorously for this provision during the WTO Ministerial Conference in Cancún.

Inter-institutional standing committee on trade policy and strategies

This group looked at whether Zambia needs to establish an Inter-Institutional Standing Committee on Trade Policies and Strategies (ISCTPS), and if yes, to provide the terms of reference for such a committee and to recommend its compositions and reporting procedures. It was agreed that such a committee must be established to give the important role that trade plays in the course of economic growth and development and poverty reduction. This committee will be made up of members representing key government line ministries, parliament committee dealing with trade issues, civil society organizations including academia, trade unions and the media, and the private sector and professional bodies.

The structure and organizational form and the criteria for choosing who sits on the committee, who is responsible for what and who makes what decisions and the channels of communication and reporting details remain to be developed.

Cancún post mortem meeting 21st October 2003

This meeting represented by civil society, the business community, government officials, representatives of Ambassadors accredited to COMESA and donor representatives was organised by the Zambia Trade Network (ZTN) which is an alliance of NGOs and individuals interested in issues of trade and the impact of trade policy on poverty.

The views of the Government on the outcome of the fifth WTO Ministerial Conference was one of disappointment. This was not only because of the lack of consensus during the meeting but also due to the many issues that were left hanging just before the meet. These included issues such as establishing modalities for further commitment in the area of Agriculture as well as modalities on non-agriculture market access. This was in addition to other outstanding implementation related issues. These unresolved issues together with delegates' own priorities and interests were all supposed to be resolved in four (4) days which represented a challenging workload.

The government's position during the Cancún world trade negotiations were presented by one member:

Agriculture

Apart from market access Zambia was advocating for the following:

- That all LDCs be exempted from any further tariff reduction commitments
- LDC products must be accorded scheduled quota and duty free market access
- With respect to modalities for tariff cuts, Zambia is of the view that whatever formula is adopted must address both tariff peaks and escalations for products of interest to LDCs

Non-tariff barriers

- Zambia adopted the Dhaka declaration on this as a national position, that is, developed countries should exercise restraint in applying technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS) to products from LDCs. Where appropriate, technical assistance should be provided to the LDC to overcome the constraints in meeting the requirement.

Export competition

a) Export Subsidies

Export subsidies must be phased out with a view of eliminating them.

b) Blue Box

Blue box measures which are considered to be trade distorting must be eliminated as contained in Article 6.5 of the WTO Agreement.

c) Green Box

Zambia supported the Cairns proposal to tighten up the definition of green box measures with a view of eliminating some of the measures and imposing a cap on the maximum level of green box support measures.

d) General Domestic Support

Zambia's view on domestic support is that some of its products are rendered uncompetitive due to subsidies provided by the developed countries. In this regard, Zambia is advocating for substantial reduction of trade distorting domestic support measures. However, this should not be applicable to LDCs who must be exempt from this obligation.

Special and differential treatment

Strategic/ Special products

- Zambia supported the proposal to identify special products for food security and rural developmental purposes. However, countries must have the right to identify their products of interests.

Special safeguard provisions/ mechanism

- Zambia supported the position that the special safeguard mechanism should cease to apply for Developed countries and that this be effected at the end of the negotiating period and not after the implementation period as proposed by some countries. Instead a user friendly safeguard mechanism should be instituted for use by the developing countries.
- If at all the current mechanism is maintained, then it must be renegotiated to allow countries like Zambia that did not have existing quotas during the Uruguay Round to evoke it. Further more developed countries should not apply it to LDCs.

Food aid

- Disbursement of Food aid is an area of concern to Zambian producers. They are of the view that whilst it is important to have food aid in times of need, it must be properly managed in a manner that it is not used as a way of disposing excess from developed countries and consequently depressing local prices.

In this regard, Zambia supports paragraph 37 attachment 6 of the chair's revised modalities for Agriculture. However, Zambia does not support 4b (ii) of the proposal which is suggesting that WTO need to notify the WTO committee on agriculture prior to any purchases. Food aid is provided in emergency situations and as such should not be subjected to laborious procedures which might result in delays in its supply. Zambia currently does not have the appropriate structures/mechanisms to access the data demanded in the proposal.

Trade preferences

Zambia supported Dhaka's LDCs Declaration on this issue which proposed to have effective safety net measures to deal with possible negative effects that may result from the removal of export subsidies on Net Food Importing Countries.

Services

Zambia's participation in services negotiations like other developing countries has been limited due to lack of both human (that are fully conversant with the process) and financial resources.

In view of the above, Zambia took to Cancún a position that they were not ready to negotiate in services at this point. In addition, Zambia intended to advocate for the following;

- The need for special modalities for LDCs
- The need to conclude the negotiations for a special services safeguard provision
- Support from Developed countries/ WTO to conduct assessment studies

Special and Differential Treatment (S&D)

Zambian position is as follows:

- S&D provisions in the WTO Agreement must be binding and operationalised
- A monitoring mechanism must be put in place to monitor progress on S & D issues that have been referred to other working committees. This will ensure that the issues are accorded the priority that they deserve. This mechanism is an addition to the one that already appears to have been agreed to by members which refers to the process after resolution of the issues.

Trips and public health

Zambia supported the agreement on the Chairman's December 16th Text as a compromise.

Non-agricultural market access

Zambia's position is as follows;

- Exemption of LDCs including Zambia from any further tariff reduction commitment
- LDC products must be accorded scheduled quota and duty free market access
- With respect to modalities for tariff cuts, Zambia was of the view that whatever formula is adopted must address both tariff peaks and escalations for products of interest to LDCs

Singapore issues

Zambia was not ready to negotiate and that there should be no linkage of these issues to the single undertaking.

Other comments made:

- Despite the set back in Cancún, Zambia needs to ensure that negotiations at a multilateral level go ahead. If this does not happen, it will encourage bilateralism which might work to the detriment of country's with little significance like Zambia
- Zambia needs to strategize on the way forward and maintain the momentum prior to Cancún.
- In this regard the following was proposed;
 - The WTO working group must continue meeting to analyze and continue making assessments of positions on various issues.
 - Work on specifics must continue as this will ultimately assist Zambia in determining negotiating positions, that is initial and fall back positions.
 - As to where the process starts from after Doha in view of the fact that no clear mandate was provided by Ministers should not be an issue for Zambia. This should be based on what Zambia must have in any agreement at minimal and also determination of what can be forgone as a compromise if there is need for this.
 - MCTI needs to be beefed up both at the Ministry headquarters and Geneva. MCTI should consider attachments to Geneva at intervals to be determined so as to assist the core team.
 - Enhancement of communication between capital and Geneva in order to provide guidance is a must.
 - Lobbying on issues of common interest at a national, bilateral, regional and multilateral level is critical to the process. Even where interests vary, it is important to lobby those who may want to oppose.
 - Engagement with the WTO Secretariat is necessary.

COMESA assessment on Cancún outcome

The COMESA's assessment on Cancún was revealed from the presentation from the COMESA advisor Mr. Calson Mbegabolawe. He stated that knowing that the Goal of 5th Ministerial was to take stock of mid-point progress on Doha agenda, provide political guidance and decisions for next phase of negotiations. The result was a deadlock. The question is what will be the consequences of this deadlock?

Importance of WTO to Africa

- >70% export market in EU, US; 70% exports are raw materials. Exports share in world decreasing (2% per year); prices/values of products also declining.
- Reasons: preferences, market access, constraints, tariff peaks, escalation, None Tariff Barriers, Rules of Origin, standards, capacity constraints, liberalization.
- Realignment of trade/economic links, EU-Latin America-Asia-US bilaterals and regionals.
- Africa: weak bilaterals, regionals, old ACP uncertain AGOA.

Conclusion

- Effective WTO needed for weaker developing countries
- Bilateral unilateral, divide, weaken, discriminate, and divert trade versus weaker countries with less clout.
- Multilateral approach for horizontal issues: agriculture subsidies, production chain constraints, anti-dumping, standards
- Regional integration in developing countries including reduction of trade barriers, investments, reduces trade costs, offers growth opportunities.
- Complement pro-active role with research and capacity building: increase knowledge of issues for effective negotiation positions, fallback plans, issues evaluation and cost-benefit analysis.
- Examine concept and realism of Special and Differential Treatment: strategies at multilateral negotiation and practical development interests: supply capacity, trade competitiveness, transport and trade infrastructure.

Civil society position on outcome

Although this round of WTO negotiations is a missed opportunity, it was the responsibility of the rich countries to deliver from the Doha declarations in Cancún. Which they failed to do but the new power of developing countries, backed by campaigners around the world appears to have averted a worse result, which would have set back the fight against poverty. The failure not to reach an agreement on the negotiations was in itself an achievement for the developing countries, who were going to go away in a worse off situation should the agreement have been passed as reflected in the text of negotiations.

Way forward

Even if Cancún negotiations failed, but there is need to continue with preparations for the next meeting/negotiations.

Market Access – there is need to have suitable rules that will not hinder other sectors.

Capacity Building – capacitating negotiation teams in order to have better achievements and in turn not harm the country.

Big coalitions among LDC could have led to the collapse of talks in Cancún as discriminatory policies emerged between individual countries.

There should be coordination on how meetings are set between regional/international bodies such as COMESA, SADC, ACP, EU to avoid collision.

Zambia should focus on what should be contained in an agreement whether it be Cancún Text I, II or III and chose the Text that at least contains benefits for Zambia.

Zambia should disengage itself from groupings that are non-benefiting. When lumped together into larger groupings, Zambia's interests are not priority – though a bigger voice carries more weight.

Engagement of the WTO Secretariat: There should be frequent communication with the WTO Secretariat rather than waiting to communicate when meetings are called upon. The Zambian Geneva Office should also be beefed up (increase personnel) to build capacity. The Ministry of Commerce is willing and would like to work with civil society in dealing with trade issues – more so with preparations for meeting in Geneva.

6.11 Poverty situation in Zambia

Poverty linkage

The linkage between trade policy and poverty can be described in a three-stage manner. Firstly, trade policy affects trade flows, which modify the prices of goods and services. Secondly, increased trade affects economic growth and income of the people. Thirdly, changes in economic growth and income distribution affect poverty. Research studies on the subject have shown that there is some degree of a positive relationship between the openness of the economy and economic growth. Openness is measured by the degree of international competitiveness, changes in the real exchange rate, degree of monopoly in marketing of export products, forms and functioning of governance, the level and variability of trade and non-trade barriers, etc.

Trade policy could affect all these conditions in one way or the other. For example, realisation of better terms of trade for primary exportable goods would have a direct impact on increasing national income as well as family income. Liberalised trade and economic policy may result in efficient use of capital resources. Hand in hand with economic liberalisation there is a need to introduce effective social safety nets, which could **minimise social exclusion** at the time of trade liberalisation.

For instance, Zambia did not plan for any meaningful social safety nets when the country introduced fast track economic liberalisation and privatisation during the 1990s. Adherence to international commitments on development matters such as UN MDGs, DDA, etc by the rich and poor countries such as the UN MDG and also functioning of an enabling global trading environment would result in stable market access for poor countries' exports. Open trade policy does not always bring in benefit for all the tradable sectors as there will be winners and losers. It can also make the domestic economy prone to global fluctuations. However, in the long run the stabilisation of prices in tune with world market prices would be considered as beneficial to the national economy as well as to the consumers.

However, while economic growth and increase in a country's national income is necessary condition, this alone is not sufficient for poverty reduction. The important question is the distributional aspects of additional income generated through economic growth. There is need to ensure that the share of national income gains are being transferred to the poor and not necessarily concentrate among producers and the business class alone. It is also essential to ensure that the farmers and workers engaged in cultivation and production activities are getting the benefit of liberalised trade and export markets. Thus, in establishing the linkage between economic and trade reform and poverty reduction is necessary to establish how trade policy could help not only in raising national income but also better distribution of income.

Zambia experienced considerable economic stagnation since early 1980s mainly due to fluctuations in the primary commodity prices. The decline was mainly due to fluctuations in earnings from copper export, which was hit by the declining of copper prices since the

early 1970s. Zambia is currently categorized as a highly indebted poor country (HIPC) by the International Monetary Fund (IMF).

Poverty levels in Zambia

According to the 1998 survey report by the Central Statistical Office (CSO), 73% of the total population (10.5 million) was poor of which 58% were said to be extremely poor⁵¹. The acute poverty levels in Zambia are more concentrated in the rural areas which harbour 63% of the county's population. As of 1998, rural poverty stood at 83% compared to the urban figure of 56%. Of the 83% poor in the rural areas, 71% of these were extremely poor. Zambia has nine provinces.

In terms of provincial distribution, the pattern is more or less the same with the lesser developed provinces exhibiting a higher incidence of poverty. The 1998 LCMS showed that Western Province had the highest incidence of poverty i.e 89% of which 78% were classified as extremely poor. This was followed by Luapula and Northern provinces. The two urbanized provinces viz. Lusaka and the Copperbelt had the lower incidences of poverty; the rest of the provinces had an average of three quarters of the population living in poverty. As per the available data female-headed households had a higher incidence of poverty.

Table. 8.1 Selected Poverty Statistics

	1991			1996			1998		
	Total Zambia	Urban	Rural	Total Zambia	Urban	Rural	Total Zambia	Urban	Rural
Incidence of Poverty	69.7	48.6	88.0	69.2	46.0	82.8	73.0	56.0	83.1
Incidence of extreme Poverty	58.2	32.3	80.6	53.2	27.3	68.4	57.9	36.2	70.9
Depth of Poverty	62.2	46.4	69.7	51.3	37.9	55.6	-	-	-
Severity of Poverty	46.6	29.9	54.6	32.3	19.4	36.5	-	-	-

Source: Central Statistical Office, 1991, 1993, 1996, 1997 and 1998

There were visible changes in the poverty levels during the 1990s. The incidence of extreme poverty was more in rural areas than urban areas, although this trend has been declining. For instance, the incidence of extreme poverty in rural areas in 1991 was 80.6 percent compared to 32.3 percent in urban areas. In 1998, extreme rural poverty dropped to 70.9 percent while extreme urban poverty rose to 36.2 percent. Whereas rural poverty has been declining, urban poverty has increased since 1991. This partly reflects the low returns from formal sector employment in urban areas. Despite the consistent

⁵¹ Central Statistical Office, Living Conditions Monitoring Survey (LCMS), 1998.

implementation of macroeconomic and structural policies, the levels of poverty in Zambia were still high.

Table. 8.2 Classification of Poverty in Zambia

The estimates of the LCMS 1998 classification of poverty was based on the total expenditure accruing to members of a household using the food basket approach. The food basket approach calculates the cost of acquiring basic food items that provide basic caloric requirements for an individual or household. Based on this approach, the LCMS calculated K47,188 and K32,861 per adult member of a household per month as poverty lines for moderately poor and extremely poor respectively. Households living above K47, 188 per adult member per month were considered above poverty levels. Households with monthly adult equivalent expenditure between K47,188 and K32,861 were considered as moderately poor, while those with monthly adult equivalent expenditure of less than K32,861 were considered extremely poor.

Note: As per 2003 exchange rate of Kwacha US\$1= 4700

The decline of the mineral based economy has created several socio-economic challenges to the people. The human development index has continued to deteriorate. Zambia’s average annual population growth rate ranges between 2.7% and 3.1% in rural and urban areas. The country’s population below the age of 15 years was estimated at 49% in 1977, a figure that underlines a high dependency ratio to overall population.

The measurement of poverty can vary according to the definitions. According to the World Development Report 2001, 86 percent of the population was classified as poor. Further, Zambia has a high degree of social inequality. The lowest 10 percent of the population account for a paltry 1.1 percent of national income whereas the top 10 percent take 41 percent of the national income. There are indications that poverty has decreased in rural areas where the farmers have better access to markets for their agricultural produce especially those who engage in out grower schemes of commercial crops.

According to the PRSP, life expectancy at birth is 40.5. However, the latest official estimates (2003) gives the figure of 50 years.

Table 8.3 Health and Nutritional Levels

	1996	1998
Life expectancy	45.5	40.5
Infant mortality rate (1000) live birth)	112	112
Under five mortality rate (1000)	202	202

Source: PRSP, 2002-2004 P. 24

Access to basic services

In Zambia, only 19 percent of households have access to electricity for lighting and 15 percent for cooking. Since access to electricity for cooking can also be affected by factors such as access to electric cookers, lighting would be a better measure for capturing electricity accessibility.

Thus, in the short-term, high levels of poverty in Zambia adversely affect affordability to pay for basic utilities such as electricity even if access was increased. Restructuring of the

electricity market may however increase economic activity in the medium to long-term through electrification of potentially productive areas. This in turn may increase levels of employment, aggregate demand and thereby raise the income levels of the poor and their demand for, among other things, electricity.

Effects of trade on poverty among different groups

Social development and poverty

During the 1990s efforts to improve living conditions have been unsuccessful, largely due to the absence of a coherent poverty reduction strategy. Poverty in rural areas, leading to an exodus and an urbanization rate of 53%.⁵² In rural areas, many households, especially those composed of women and children, do not have sufficient income for procuring food. The rapid spread of HIV/AIDS has resulted in steep increases in the number of orphans. The social safety net provided by the extended family has come under stress because of high unemployment rates and early death of the breadwinners. In addition to the human suffering involved, the high incidence HIV/AIDS poses a direct threat to the functioning of both Government and the private sector. Since the victims of the illness are mainly to be found among those of productive age, the manpower replacement costs are high. Furthermore, due to accelerating mortality rates among educated and skill trained people, both the public and the private sector's experience increased difficulties to find sufficient replacements of adequate quality.

The Government has committed more resources to the social sectors in the recent years. However, in the absence of an integrated financial management system and suitable social indicators, it is difficult to assess the degree of efficiency at which disbursed funds have been and will be used.

Women in Zambia face economic and social disadvantages. In the traditional system they are disowned after the death of the husband and depend thereafter on their children. Birth control prevalence rates are low and teenage pregnancies are higher. Poor nutrition of mothers and infants is of concern. Further, women are rarely involved in formal decision-making and they are under represented in public life.

If we look at occupational pattern, women are active in agricultural sector, small business. There are studies that have demonstrated a strong relationship between poverty and gender of the head of the household. According to studies in Zambia, female-headed households are generally more vulnerable to poverty than male-headed households. This clearly shows the extent and magnitude to which female-headed households are disadvantaged.

The highest incidence of poverty among female-headed households was recorded in Western Province within which close to 93 percent were poor with more than 85 percent being extremely poor. Lusaka had the lowest proportion of female-headed-households living in extreme poverty. In general, and except for North-Western Province,

⁵² Zambia – European Community, Country Strategy Paper and Indicative Programme, for the period 2001 - 2007

predominance of female-headed households among the extremely poor cuts across all the provinces in Zambia.⁵³

Small Farmers

The small-scale farmer may be defined as those who actively participate in subsistence agriculture based on family labour. Their income is directly dependent on the success of their annual harvest. They characteristically have limited access to resources, technology, alternative livelihoods and means of production. Some studies indicate that small farmers have been badly hit by the speed by which structural adjustment programmes were implemented during the 1990s. As a result of sudden withdrawal of subsidies and state owned marketing and procurement schemes, rural farmers did not get the benefit of market price mechanism.

There are several NGOs which work for the betterment of small farmers in Zambia. Recognizing that small-holder farmers are the 'key' to household food security, Participatory Ecological Land-use Management Association (PELUM)-Zambia developed the Seed Security Pilot Project (SSPP) initiative in 2001-2002. The NGO initiatives facilitates the development of linkages between farmers and support NGO's, Community Based Organisation (CBO's), institutions, the public sector and other actors. Zambia does not have a national policy on agriculture. The link between trade and poverty reduction among small farmers are linked to better return to products such as cotton, maize, cut flowers, fruits, milk, etc.

Household food insecurity among farmers in Zambia is mainly due to low food production. However, post-harvest losses due to poor storage which results into a loss of over 30% of food produced is a very significant factor. In addition, inadequate processing technologies undermines the nutritional value and the level of utilisation of the food produced at household level. Interventions have focused on increasing food production without promoting better storage and processing technologies to enhance gains in food production with respect to household food security. **(for details of nutrition levels see annexure 4)**

Following liberalisation, innovative forms of market integration have emerged to begin filling the gap left by the collapse of co-operatives and other government sponsored marketing institutions. This has been best achieved through contractual arrangements between producers and the integrating agencies and has been most successful in high value crops such as paprika, vegetables, cotton, sunflower and soybeans through the following modes:

The fact that market participation before 1999/000 had been falling despite price increases for agricultural commodities. However, much of this is an adjustment to the fundamental changes that have taken place in maize marketing. This has been caused by persistent droughts in the 1990s that led to a significant decline in maize production in the traditional maize growing areas. For this reason, Southern Province, which has been affected most by these climatic uncertainties more than any other province recorded the

⁵³ Muyakwa S. Trade Assessment Study, Final Report, Oxfam, May 2002

biggest fall in output market participation with the share of farmers selling to markets declining from 83.48% in 1990/91 to 23.0% in 1995/96 before rising to 49.1% in 1999/00.

Despite the diversification away from maize to small grains and tubers, and the growing entry of these crops in markets, the marketing activities occupied by maize in the early 1990s have not been replaced. The markets for traditional crops are still undeveloped and demand has been hampered by the limited human, livestock and industrial use of these crops compared to maize. Given that traditional crops use much less external inputs and farmers already possess the necessary skills to grow them unlike high value crops, taking measures that would expand the markets for these crops should be an essential component of strategies to raise farmers market participation.

The noted growth in high value crops has also not made any significant inroads in replacing the declining maize marketing activities. The volumes of high value crops being produced are still too low. Diversification into high value crops has been hampered by farmers' inadequate skills and the long distance to key markets such that it is only farmers around the Copperbelt, Lusaka and some parts of Southern Province that have begun to produce high value crops. Falling access to modern farm inputs due to high prices and non - availability have also hindered the adoption of high value crops.

The market participation of farmers in Zambia varies from region to region since a number of factors are important in determining farmer's participation in output markets. Most of the districts with the least market participation are Western Province. Both have very harsh conditions for crop production and have therefore little foundation for producing reasonable surplus for the markets. Region near lake Kariba had an output market participation rate that was far higher than the national average. This is attributable to the reasonably developed tourism and fishing industries that have created a developed internal market for agricultural food commodities.

Districts that could access markets in neighbouring countries showed a higher market participation rate despite their long distance to the local key markets. Chadiza, Chipata and Lundazi in Eastern Province all had output market participation rates higher than the national average because farmers could access markets in Malawi. Price and Market Information. Districts with a relatively high number of farmers access information on output prices have shown a higher percentage of farmers selling to the markets.

Although market participation may have began to rise, that less than half the farmers are selling to the markets should count as being the core of farmers' failure to benefit from the agriculture liberalisation measures undertaken in the 1990s. There should be a stronger recognition of the centrality of markets in determining farmers' production outcomes. Building market linkages should be made central to all interventions in agriculture. Farmers should be facilitated to begin to manage farming as a business and base the production decisions on market information and trends.

It can therefore be deduced that interventions in these areas especially focusing on export markets and also domestic marketing. This will have the potential to offer employment to a relatively large number of people particularly in the rural areas both directly and indirectly. That is, farmers on a small scale can easily finance production or there is availability of out grower schemes for the same. For instance, there are low cost areas for the production of cotton in terms of inputs as farmers can easily finance production or conversely, they can benefit from out grower schemes, which have grown considerably in the recent years. Any increase in the export opportunities for agricultural and horticulture products of Zambia will have positive effects to employment and income levels of women as women workers are quite high in the sector.

Fisheries

The fishing industry is a very important economic activity in some rural parts of Zambia but often overlooked in the analysis of agriculture production. The industry has two sub sectors—Capture Fisheries and Aquaculture (Fish farming). The capture fisheries consists of main rivers, natural and artificial Lakes, flood plains and swamps. The main fisheries are Lakes Bangweulu Mweru-Wantipa, Mweru–Luapula, Tanganyika, Itezhi-tezhi, Lusiwasi, Kafue River, Upper and Lower Zambezi River and Lukanga Swamps. There are over 400 known species of fish in these fisheries. The fishing industry is a major source of employment in the rural areas. There are about 300,000 people employed in the various operations of the industry which contributes about 3% of GDP.

Exploitation of capture fisheries is carried out by both commercial and artisanal fishers. Commercial fishers usually exploit deep-water species. Estimated production including that from aquaculture is between 65,000 to 70,000 metric tons. This is below the estimated national demand of 100,000 metric tons. Poor road infrastructure and lack of regular transport to urban centres makes it difficult for fisher folks to access nets and other requisites for there fishing enterprises. Post harvest losses which can be as high as 50% in the wet season, reduce the amount of marketable fish available to consumers. Training in appropriate pos-harvest technologies is rarely given due to lack of financial resources.

Commercial fishing is confined to fisheries where there is the reasonable development of infrastructure, such as roads, easy access to an urban centres and power. There is at present inadequate processing facilities and lack of regulations to motivate farmers to exploit the export market. This would widen the demand and enable the farmers to earn foreign exchange. Lack of clear policy on land acquisition for fish farming.

Mining sector

The mining sector has traditionally been linked to export opportunities. The contribution of the mining sector to the Zambian economy cannot be over-emphasised. Most of the metals from Zambia are exported to European Union and Japan as primary products hence return from trade has a large role. For instance, any closure of Konkola Copper Mines (KCM) following the withdrawal of Anglo-American Corporation would have affected not only the Copperbelt and the entire mining sector due to interdependence, but also the entire economy. More than 18 000 jobs in the mining industries and other related

dependent sectors were threatened, with the livelihood of an estimated 100,000 people who indirectly are beneficiaries of the mining industry, almost sure to be hit by any negative movement in the sector. Household incomes would generally have fallen considerably. Fortunately, the mine continued operation with the support of government and donor support. Government is still trying to find suitable buyers for the mine.

Since the prices of commodities such as copper and cobalt are not much influenced by the tariffs and market access issues, the Doha round may not have much impact. However, the manufacturing products such as copper cables and electrical goods can have an impact of the outcome of the negotiations on non-agricultural market access.

Zambia and UN Millennium Development Goals

Among the various ambitious targets of economic development and poverty reduction, the UN MDGs and also PRSPs stand as key documents. These documents provide not only the status report of various social and economic indicators but also set target for the future. The UN MDGs provide eight key goals within which 18 measurable targets are set for 2015. The goals cover themes such as eradication of extreme poverty, achieve universal primary education, environmental sustainability, etc.

Since economic liberalization and trade have been considered as important tools for growth, the WTO Doha Development Round could contribute to the attainment of MDGs. Zambia is trailing behind in many of the indicators including poverty eradication, health etc. It has done better in sectors such as promoting gender equality and empowerment of women.

The health sector is weak in Zambia due factor such as poor resource allocation, absence of sufficient number of medical professionals, inadequate drugs procurement. The HIV and Malaria cause illness and death to a large number of people every year.

MDG Tables – Zambia

Zambia Country Profile					
	1990	1995	2001	2002	
Eradicate extreme poverty and hunger					Prospects for 2015
Population below \$1 a day (%)	..	..	..	..
Poverty gap at \$1 a day (%)	..	..	..	..
Percentage share of income or consumption held by poorest 20%	..	..	..	..
Prevalence of child malnutrition (% of children under 5)	25.2	23.5	..	..
Population below minimum level of dietary energy consumption (%)	45.0	..	50.0	..	
2 Achieve universal primary education					
Net primary enrollment ratio (% of relevant age group)	..	74.8	65.5		
Percentage of cohort reaching grade 5 (%)	..	..	80.6		
Youth literacy rate (% ages 15-24)	81.2	85.1	88.7	89.2	
3 Promote gender equality					
Ratio of girls to boys in primary and secondary education (%)	..	..	92.4		
Ratio of young literate females to males (% ages 15-24)	88.1	91.5	94.6	95.0	
Share of women employed in the nonagricultural sector (%)	..	..	..
Proportion of seats held by women in national parliament (%)	7.0	10.0	10.0	12.0	
4 Reduce child mortality					
Under 5 mortality rate (per 1,000)	192.0	202.0	202.0		
Infant mortality rate (per 1,000 live births)	108.0	112.0	112.0		
Immunization, measles (% of children under 12 months)	90.0	86.0	85.0		
5 Improve maternal health					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	870.0	..		
Births attended by skilled health staff (% of total)	50.5	46.5	..		
6 Combat HIV/AIDS, malaria and other diseases					
Prevalence of HIV, female (% ages 15-24)	..	..	21.0		
Contraceptive prevalence rate (% of women ages 15-49)	15.2	25.9	..		
Number of children orphaned by	..	..	570.0		

HIV/AIDS			thousand		
Incidence of tuberculosis (per 100,000 people)	..	..	529.2		
Tuberculosis cases detected under DOTS (%)	..	..	..
7 Ensure environmental sustainability					
Forest area (% of total land area)	53.5	..	42.0		
Nationally protected areas (% of total land area)	..	8.6	8.6		
GDP per unit of energy use (PPP \$ per kg oil equivalent)	1.1	1.1	1.2	61.0	
CO2 emissions (metric tons per capita)	0.3	0.3	0.2		
Access to an improved water source (% of population)	52.0	..	64.0		
Access to improved sanitation (% of population)	63.0	..	78.0		
Access to secure tenure (% of population)	..	..	..
8 Develop a Global Partnership for Development					
Youth unemployment rate (% of total labour force ages 15-24)	..	..	..
Fixed line and mobile telephones (per 1,000 people)	..	9.6	19.4		
Personal computers (per 1,000 people)	..	..	7.0		
General indicators					
Population	7.8 million	9.0 million	10.3 million	10.5 mn	
Gross national income (\$)	3.5 billion	3.1 billion	3.3 billion	3.5mn	
GNI per capita (\$)	450.0	350.0	320.0	330.0	
Adult literacy rate (% of people ages 15 and over)	68.2	73.3	79.0	79.9	
Total fertility rate (births per woman)	6.3	5.9	5.2	5.1	
Life expectancy at birth (years)	49.1	45.4	37.5	36.9	
Aid (% of GNI)	16.0	63.0	10.7		
External debt (% of GNI)	229.9	215.8	162.1		
Investment (% of GDP)	17.3	16.0	20.0	18.0	
Trade (% of GDP)	72.5	75.9	64.4	74.6	

Source: World Bank, Devdata, Zambia, Website, January 2004

6.12 Conclusions

This chapter attempts to draw up certain conclusions based on the analysis/observations made in the previous chapters. The core question which the study tries to address is the potential outcome of the DDA negotiations on the economy of Zambia and thereby well-being of the people especially in economic development and poverty reduction.

As it is well known, the core of the DDA trade negotiations is the issue of market access of goods, services and also to a certain extent movement of capital and labour through reduction of tariff and non-tariff barriers and also framing binding commitments or rules on the conduct of trade. Therefore, the DDA negotiation has a thrust on further liberalisation of trade and economic policy of the WTO member countries.

While assessing the impact of further liberalisation in the Zambian context, it is important to examine the past experience of economic liberalisation and also the outcome of past commitments with the WTO. The decade old economic and trade liberalisation in Zambia since 1991 brought a mixed bag of fortunes-some positive and to a great extent negative too. The impact of trade liberalisation on Zambian economy vary from sector to sector as some benefited from external markets opportunities (eg. cut flowers, sugar, etc) and economies of scale. At the same time, several firms especially in the manufacturing sector (textiles and clothing, glass, paper, wood and wood products, leather, rubber, etc) lost not only sizeable domestic markets but also its limited exports markets too due import competition. Since the introduction of liberalisation, value of imports mostly remained higher than exports and this increased BOP problems, external debt and also depreciation of the currency.

As regards the commitment at the WTO, Zambia has to make amendments to the patent act and also to make compliance on TRIPS, standards, tariff schedules and opening up of services sectors. The much talked about benefit in participating in the WTO system is rather not very visible at the domestic market. The agreements, which have larger and visible effect on Zambian economy, are COMESA, SADC, ACP-EU and AGOA. However, Zambia cannot underestimate the relevance of participating in the WTO system. The idea is that Zambia should try to maximise benefit from the WTO agreements while minimising losses.

In this context, an effort is made to examine what are Zambia's interests (export and import) in the context of key negotiation themes at the WTO such as agriculture, industrial and manufacturing products, TRIPS, services, trade facilitation, etc.

Zambia's interest in agriculture negotiations

Ever since the decline of copper mining sector in providing the essential hard currency base for the economy in the 1990s, Zambia has taken some serious initiatives in developing agricultural and horticultural products sector as a key to its economic growth.

Further, the sector has a vast potential for providing the much-needed resources for development and also poverty reduction. At the same time, the withdrawal of subsidies, state marketing and administered prices during the liberalisation era has created pressures and adjustment problems for the farmers, which are yet to overcome fully.

Zambia has 42 million hectares of arable land. Between 1996 and 2000 the total agricultural area under cultivation ranged between 1,160,869 and 1,327,221 hectares. This however, represents only about 15% of the total potential area for agricultural production. Nearly 58% of the total land area in Zambia is arable.

The agricultural sector employs 85% compared to 6% and 9% in the industry and services respectively of the 3.4 million labour forces. Therefore, agriculture has a greater impact on the income earning potential of the people. Zambia's total exports in 2000 stood at US\$ 928 million. Agriculture exports (horticulture, floriculture, high value crops and primary agriculture) in 1999 were US\$139,049,370 denoting a contribution of over 45% of overall non-traditional exports (NTEs) which amounts to US\$304,495,810. According to 2003 data agriculture sector (including forestry and fishing) contributes nearly 15.3 % towards GDP.⁵⁴

Thus agricultural sector despite being constrained by the informal markets, poor support services and high production costs, remains one of great importance to Zambia's economy. Nearly 60% of population, who live in the rural areas are dependent mainly on agriculture and allied activities such as fishing, cattle rearing etc. for their livelihood with the majority involved in subsistence level agriculture. A large portion of them belongs to small-scale farmer category. The sector's economic significance is also seen in the fact that in post liberalisation period the positive growth registered by the economy has largely been attributed to the good performance of the agricultural sector. It is thus expected that by encouraging production of both food and cash crops such as maize, sugar, cotton, cut flowers, paprika, fruits and tobacco coupled with the wider markets provided by the different trade arrangements/agreements in which Zambia is a member, would significantly help in reducing poverty in the country.

Besides providing food security, it is becoming the backbone of Zambia's economy for export earnings and employment creation. Unlike many other LDCs, Zambia's interest in agriculture negotiations does not confine to a single product or a few special products as country produces a basket of products whose export concentration is relatively small.

Except for a few horticultural products, which have markets in Europe, most of the Zambian agricultural exports goes to regional markets such as COMESA and SADC. As regards the international market, which is mainly in Europe, are governed by the ACP-EU Cotonou Agreement. It also has a limited export base in the US- based on AGOA preferences. The main exports to Japan are primary mineral products such as copper and cobalt. As a result, it is not a key player of agricultural talks at the WTO.

⁵⁴ CSO, The Monthly, January 2004

Zambia is an importer of food products, which vary from year to year depending on the dynamics of domestic production. Source of this import is again mainly from the regional trading blocks. It also receives food aid from the West, which depends on the food security situation in the country.

However participation in the WTO agricultural negotiations is important for Zambia for reasons as its large potential for enhancing agricultural production and export base. Further, WTO rules are increasingly been the guiding factor of regional and preferential trade arrangements. Being a member of the LDC and Africa group, Zambia also joined with other countries to enhance S&DT provisions, technical assistance and capacity building support to the poor countries.

This is the background by which Zambia tries to develop its position and interest in the agricultural negotiations. Bringing down barriers to agriculture trade is the key issue of the Doha Round. The work programme adopted for the negotiations cover three pillars of the Agreement on Agriculture i.e. export competition, market access and domestic support

Zambia' interest and position are developed around the following factors. However, being an LDC and AG alliance partners the position of Zambia need not always be based on its own interest –but for group interest too. For instance, it stood by concepts like 'strategic products' for developing countries for food security and rural development, which were proposed by the Africa Group, though Zambia hardly has any strategic product of export relevance (though maize being a strategic product for food security only).

Apart from getting better market access for agricultural products from the poor countries in the developed country markets, Zambia also advocated the following issues at DDA and Cancún:

- That all LDCs be exempted from any further tariff reduction commitments
- LDC products must be accorded scheduled quota and duty free market access
- With respect to modalities for tariff cuts, Zambia is that the formula adopted must address both tariff peaks and escalations for products of interest to LDCs

In general Zambia's agricultural interest allows it to oppose domestic and export subsidies in the rich countries. Although, Zambia benefits from agricultural subsidies in two counts, higher price for its sugar in the EU quota system and also food aid- which often has an element of subsidy in the donor countries.

Standards and market access: Zambia has an interest in advocating for flexibilities in SPS standards and also technical assistance and capacity building on the matter.

Tariff escalation: Considering the potential of agricultural processing sector, it would be of Zambia's interest to advocate for measures to stop tariff escalation and non-tariff barriers.

Other areas of concerns and demands at the WTO are:

to provide adequate and meaningful financial and technical support- than workshops and seminars - to address supply capacity problems, institutional and human constraints in order to take full advantage of opportunities emerging from the multilateral trading system.

existing preferences that have been accorded historically to developing and least developed countries should remain and be secured under the framework of the AoA

Food aid provided by members to meet emergency situations, humanitarian and development objectives and to address chronic food deficit situation in LDCs should be allowed – without any WTO restriction on it.

To implement the Marrakesh decision on measures concerning possible negative effect of the reform programme on LDCs and Net Food Importing Developing Countries, including through the establishment of a revolving fund to ease short term financing problems linked to import of basic foodstuffs

Non-agricultural market access negotiations and Zambia

The share of manufacturing sector to the overall GDP of Zambia in 2003 was 10.9 %. The sector mainly constitute food products, beverages and tobacco, textiles and leather products, chemicals, rubber, plastics, wood and wood products. Among the category, food, beverages and tobacco alone contribute about 60% of the manufacturing GDP. The other growing areas of production and also export interest are textiles and leather. The textile and leather sector have been benefited by improved access to markets under trade arrangements such as COMESA, AGOA, etc. To add up, the above-mentioned sub-sectors accounts for about 90% of the total manufacturing GDP as of 2003. The growing performance of the manufacturing sector indicates that the sector has been growing since the initial shock of competition when the economic liberalisation programme was started in the early 1990s.

As regards the DDA negotiations, Zambia has not undertaken any studies to determine the effects of each of the tariff reduction proposals for industrial products. During the pre-Cancún consultations, the civil society recommended that the studies should take into account the effects on imports, exports, tariff revenue, economic welfare and output as well as long term and short term costs and benefits.

Similarly, Zambia has not been actively involved in NAMA negotiations at the WTO or at the Doha round as it is not a key exporter of manufacturing products. However, it has some interest in getting better access for textiles and clothing, leather and metal fabrications, copper cables, etc.

Though Zambia is a producer of cotton, it has not actively supported the cotton initiative led by a group of cotton producers from West Africa. Perhaps, it was felt that countries

sponsoring cotton initiative had a single point agenda of striking a deal cotton even at the cost of negotiating Singapore issues—which was not the position of Zambia.

As regards import interest, in case of reduced in tariffs for inputs for manufacturing and agricultural sectors will it be beneficial to the local industry. For instance, if there is a reduction of tariffs on fertilisers-what will be impact on other sectors such as agriculture production and (or food security). At present tariff makes the cost of import to Zambia expensive, which has its detrimental effect on the development of manufacturing sector since a large number of inputs for manufacturing sector are imported.

Since Zambia does not have any major manufacturing export sector, it has not shown much interest in the negotiations as well. Further, most of its export to the developed countries have low tariffs, except a few such as textiles, clothing, leather, etc. However, there are arguments that Zambia's export to some of the developing countries does face high tariffs. However, no detailed studies being conducted to determine the effects of each tariff reduction proposal on trade, taking into account the effects on imports, exports, tariff revenue, economic welfare and output as well as long term and short term costs and benefits.

It is believed that, the decisions on the following at DDA would benefit Zambia:

- Least developed countries should be exempted from tariff reduction
- LDCs must be given maximum credit for unilateral liberalization
- Targeted technical assistance should be provided to LDCs and address supply side constraints
- Erosion of preferential margins due to MFN tariff reductions should be offset by establishing compensatory and other appropriate mechanisms to fully address the impact of erosion of preferences including measures that promote exports of LDCs
- Developed countries should eliminate tariff peaks, high tariffs and escalation as well as non-tariff barriers in particular to products of export interest to developing and least developed countries.
- Developed countries should commit themselves to deeper reduction while providing flexibility for gradual reduction of tariffs by developing countries
- With respect to modalities for tariff cuts, Zambia was of the view that whatever formula is adopted must address both tariff peaks and escalations for products of interest to LDCs.

TRIPS and public health

TRIPS agreement has a lot of relevance to Zambia. It involved not only the cost of modernising the patent systems but also the cost involved in transfer of technology, drug import and seed security. It is also important that adequate studies are to be carried out at the national level while enacting TRIPs complaint legislation.

The understanding arrived at the WTO just before the Cancún Ministerial on TRIPS addressing public health emergencies has a lot meaning for Zambia. The country largely depends on imported drugs as it does not have own production facilities. The prevalence of HIV/AIDS, which about 16% of the population (160,000) has had a significant adverse impact on the Zambian economy. According to the Health Survey of 2001-2002⁵⁵ 16 percent of all adult population aged between 15 and 49 years (or about 900,000 adults) were reported to be HIV positive. There is projection that the number of HIV infected persons will increase to 1.1 million by the year 2010 if adequate preventive measures are not done.

During the national consultation on the Cancún, with respect to TRIPS and Public health, it was opined that due to lack of manufacturing capacity in the pharmaceutical sector, Zambia is unable to take advantage of *compulsory licensing arrangement* under TRIP and Public health to produce generic drugs to respond to public health epidemics such as HIV/AIDS, malaria, TB, etc.

Therefore, it was advanced that for countries, which lack the necessary pharmaceutical capabilities to produce drugs under the current *compulsory licensing* provisions should be allowed to import these drugs from countries such as India and Brazil that can produce them cheaply and efficiently. It was thus resolved that Zambia should lobby vigorously for this provision during the WTO Ministerial Conference in Cancún. At Cancún, Zambian government delegation extended its support to the understanding reached on flexibility granted to TRIPS to deal with public health emergencies.

GATS negotiations

The domestic services sector in Zambia contributes to nearly 60 per cent of value added to the real Gross Domestic Product. The main tertiary sector activities contributing to the GDP are wholesale and retail trade, banking and insurance, real estate and business services, transport and storage facilities.

However, the share of services sector to exports is relatively low. The major services exports are tourism, power, hotel, temporary movement of people in sectors such as health, etc. The importance of services in export promotion of the country has not been well recognised. The sectors, which have got some sort of plans for development, are tourism, construction, hotel/motel and recreation. In 2001 government devised a master plan for tourism development through guiding investments in the country. It also introduced new programmes such as eco-tourism, sports and cultural tourism. In recent years a number of hotels and guesthouses opened in tourist locations.

The existence and quality of service sector and infrastructure in any country is a key determinant of foreign investment and also expansion of foreign trade. The provision and quality of services greatly determines the cost of doing business including its viability. Therefore, Zambia could make use of opening up of key service sectors if it could get proper offers for exports such as power, telecom, MNP, banking, etc.

⁵⁵ Economic Report 2002, p. 110

Unlike the other WTO agreements Zambia has been more active in the discussion on GATS at the WTO. It has however, could not comply with the time frame given under the built in negotiations on initial requests and offers. Zambia has a large potential to make use of GATS and liberalisation of public utility sector. It can not only provide market access and much needed capital but also will reduce the exorbitant cost of services such as telephony, email, hospital services, banking and insurance. It will also make the county country attractive to FDI and reduce cost of doing business.

Zambia's participation in services negotiations like other poor has been affected by lack of both human and financial resources. It has not carried out any serious study on the existing service sector firms and export opportunities available. In view of the above, Zambia took to Cancún a position that they were not ready to negotiate in services at this point. In addition, Zambia advocates for the following;

- The need for special modalities for LDCs
- The need to conclude the negotiations for a special services safeguard provision
- Support from Developed countries/ WTO to conduct assessment studies

Trade facilitation

Among Singapore issues, TF received the highest amount of support at Cancún. This includes support from some of the developing countries. Sticking to its position on Singapore Issues, Zambia opposed the launching of negotiations on the subject at Cancún.

Zambia has not undertaken any evaluation or study on the pros and cons of trade facilitation. However, being a land locked country, Zambia faces enormous amount of difficulties in export and import. At present the export and import involved cumbersome procedures. One of the issues of course very relevant to Zambia is transit of goods and services, customs valuation, expediting the movement, release and clearance of goods, including goods in transit. The Doha declaration focused on the above aspects – but without giving details as Council for Trade in Goods (CTG) is expected to review and clarify on how to formulate multilateral understanding in this area. The Doha declaration underlined that trade facilitation needs of poor and developing countries are a priority.

Trade facilitation can be a potential area for consideration for Zambia, though there is opposition to negotiate on this at this point. The problem is that it is linked to other Singapore issues, agriculture and also the single undertaking. Although the there was a feeling among some developing and least developed countries and most rich countries that an understanding on trade facilitation will be a beneficial instrument. Those who support the initiative feel that the arrangement will bring in guidelines for the speedy clearance, processing and customs valuation of goods at the port of entry and exit. There is also large potential for an understanding during the Doha round on issues affecting trade of landlocked countries such as Zambia.

As regards, the civil society (non state actors) position evolved before Cancún was that Zambia should prioritize key areas of development issues such as assistance to develop

infrastructure for trade in particular inter linkages in the transport system to overcome the problem of being land locked. Further, multinational and regional financial organizations and bilateral and multilateral donors should give special attention to the building of infrastructure to enhance attractiveness of least developed countries to foreign investors.

Civil society also recommended that in view of the overwhelming workload generated by the DDA, Zambia like most LDCs has limited resources to follow negotiations and evaluate the implications of negotiations on Singapore issues on the economy. Therefore; Working Groups should continue work on the process of clarifying these issues; and Effective technical assistance and capacity building should be provided to developing and LDCs to conduct assessment studies on the implication of these issues on their economies

According to the trade Minister of Zambia, the Cancún text of 13 September 2003, which proposed commencement of negotiations on Trade Facilitation and Transparency in Government Procurement, was unacceptable to Zambia. Zambia was not ready to negotiate and that there should be no linkage of these issues to the single undertaking.

Other issues of concern at DDA negotiations

6.1 Special and Differential Treatment (S&DT)

Zambian position is as follows:

- S&DT provisions in the WTO Agreement must be binding and operationalised
- A monitoring mechanism must be put in place to monitor progress on S & D issues that have been referred to other working committees. This will ensure that the issues are accorded the priority that they deserve. This mechanism is an addition to the one that already appears to have been agreed to by members which refers to the process after resolution of the issues.

6.2 Technical Assistance and Capacity Building

Zambia has an interest in the programme. It views that:

- Technical assistance programmes for LDCs should be substantially increased, be demand driven and emphasize country specific programmes
- Institutional capacity of LDCs including development of human resources should be strengthened
- provide increased resources to the Global Trust Fund to enable the WTO impart adequate technical assistance to LDCs
- enhance support that is aimed at improving the participation of the private sector, civil society and other stakeholders in the IF/programmes so that supply side constraints are appropriately addressed

In short, WTO DDA negotiations can be a tool for poverty provided there are positive outcomes in expanding trade and investment opportunities in Zambia. Further, any positive outcomes opening up/low cost provision of power, water, telephones, transport of sectors and other essential services will be very helpful for reducing poverty levels in Zambia as exorbitant cost of utilities hindering not only consumer welfare but also the development of private sector in Zambia.

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Annexe 1 Zambia and privatisation

In 1964, the public sector accounted for 14 percent of the economy and it grew to 80 percent of the economy by 1972, thanks to the socialist model of development followed by Zambia for quarter a century. Since 1991, the government moved away from a socialist and public sector dominated policy framework, which played the conflicting roles of policy formulation, regulation and enterprise management. Thus, it became a business player and a regulator at the same time. Consequently, flexible fiscal policies were inevitable. The results were huge public expenditure deficits, a huge external debt and inflation. Thousands of jobs were lost and economic growth became tenuous

To check the declining economic performance, the government adopted an economic reform programme aimed at the reduction of the government's direct involvement in the economy by providing enterprises with greater freedom, incentives, and stimulating entrepreneurial activity for promoting domestic competition and efficiency. The government also sought to open the economy to allow domestic firms to compete internationally and adopted an improved and more modern regulatory framework by drafting new laws on trade and investment, competition, liberalisation, privatisation and deregulation.

As a result, new institutions such as the Privatisation Agency, the Competition Commission and other regulatory bodies were established, and existing ones, such as the Investment Centre and the Bank of Zambia were reformed. Overall, these measures resulted in a reduction of bureaucratic procedures by removing licensing requirements; privatisation; adopting anti-inflation measures such as reduction of the money supply; removing exchange rate restrictions, and removing most subsidies.

The public sector reform programmes aimed at streamlining the role of the government administration to one that is conducive to private sector development by seeking to end duplication and competition with private sector. Towards this end, the government adopted a policy of decentralisation by shifting services to sub-national levels of government, and sought greater involvement of communities in public service delivery.

The programme had three components:

1. Restructuring Ministries and Provinces to streamline the structure and make them more consistent with current policy priorities;
2. Improving human resource management by developing and instituting performance management systems and individual performance appraisals, training and building a culture of accountability and instituting measures to motivate workers;
3. Decentralising and strengthening local government, addressing the performance management systems and financing functions of provincial and local government, and supporting participatory governance.

The government set about the dismantling of the state owned sector, which accounted for 80 percent of GDP, with the enactment of the Zambia Privatisation Act and the establishment of the Zambia Privatisation Agency in 1992. Beginning with smaller companies, privatisation went into full swing in 1996/97. By the year 2002, 257 out of 313 companies had been privatised. The privatisation of the mines was delayed amidst allegations of corruption and inadequate planning. Many feel that a veil of secrecy and behind the scenes manoeuvres shrouded the privatisation process. Delays in the privatisation of the mines added to investor uncertainty across sectors. However, the table below shows the progress made in the privatisation of parastatals.

Privatisation Programme Status-1994 to 2002

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Completed privatisation deals (cumulative)	15	60	189	213	224	234	245	251	254
Negotiations completed		12	4	8	6	2	3	5	3
Number of Agreement Signed		30	5	2	6	2	0	0	0
Companies/units privatised (cumulative)	15	102	194	223	236	238	248	256	257
Companies under negotiation	4	24	6	33	20	16	6	2	1
Companies under preparation	32	12	53	25	16	26	26	22	22
Commercialisation of Govt. Departments*				31	31	31	31	31	31
Total Working Portfolio	52	210	253	312	303	311	311	311	313

Source: Economic Report, 2002, Ministry of Finance.

*Total number of Government departments identified for commercialisation

The implementation of privatisation measures has been controversial. In 1997, the government identified 31 departments for commercialisation. By the end of 2001, none were commercialised. Similarly, the district focus and orientation of government expenditure towards sub-national administration has yet to gain significant ground. More energy went into programme preparation than implementation. Enthusiasm has yet to be demonstrated towards implementing the public sector reform programme as it was towards privatisation. Some ministries have been restructured, ostensibly to make them more consistent with current policies. The results show haphazard retrenchment and brain drain.

Annexe 2 Profile of agricultural reforms in Zambia

Until 1991, agricultural trade policy of Zambia was dominated by price controls and the determination of agricultural prices on a seasonal basis. The government not only controlled crop prices, but also mill prices as well as final product prices. Concentration and public sector dominance of agricultural business through nationalised companies encouraged price fixing and allocation of materials only to state owned enterprises. Imports and market entry were restricted through licensing regulations. The result was that the processing and distribution of food and other agricultural commodities became dominated by a limited number of large-scale, state owned companies located in a few large urban areas. The net effect was the crowding out of private sector and the obliteration of opportunities for rural industries.

Further, in order to maintain an administered price and at the same time keep consumer prices down, a number of subsidies had to be applied. Prices became the subject of political tool, public protests and trade union lobbying. In rural areas, this policy created a pampered peasantry. Agricultural small holders became government contract farmers through the provision of subsidised farm credit. When crops failed, farmers would not repay and loans were even written off. By the 1980s, the agricultural support system had become unsustainable. Urban consumer markets were hit by consumer goods shortages, food production lagged behind population increases and food imports became regular.

Table 1: Agriculture Sector Reforms-A chronology

Reform Measure	Year	Comments
Privatise maize and fertiliser trade	1990	No significant activity until 1992
Eliminate fertiliser subsidies	1992	Indirect fertiliser subsidy maintained
Elimination of melie meal (maize flower) subsidies	1992	Hammermill growth
Decontrol of maize producer price	1993	Consumer price increase
Elimination of maize transport subsidy	1993	Consumer price increase
Lift sugar price controls	1993	Reduced local consumption
Privatise milling industry	1994-95	Some milling companies close down
Privatise cotton ginning	1995	Gins acquired by companies viz. Lonrho and Clark Cotton
Privatise Zamseed	1996	New entrants in crop seed marketing
Privatise Fertiliser trading	1996	New entrants

Source: compiled from various Agricultural policy documents

Table 1 shows the sequence of market liberalisation in the agricultural sector. On the positive side, liberalisation opened the sectors to new participants. The elimination of maize subsidies encouraged investment in the food and beverages market. The removal of import restrictions encouraged import competition and product diversification. For example the liberalisation of the crop seed market led to the entry of a number of new players and ended the near monopoly of the state sector. On the negative side, those

enterprises that could not operate without state subsidies collapsed and workers lost their employment not only in the marketing network but also in farms.

Impact of liberalisation on agricultural sector

In the agricultural sector, the removal of subsidies and withdrawal of government from distribution and marketing of agricultural products resulted in the decline of income among the small-scale farmers. With the end of subsidised inputs such as maize seed (the widely grown crop and staple) and fertilizer, which has traditionally been a vital input in maize cultivation, farming became expensive for most small scale farmers. Furthermore there was no longer a ready marketing facilities especially in the rural areas, which could purchase output from small farmers. The liberalised prices as against the administered ones remained as a new experience for farmers.

While the state owned parastatals had not been hampered by the bad road network in the distribution of inputs or purchase of output, for the private sector the bad infrastructure has presented a heavy cost. Private traders have failed to reach remote areas of the country resulting in losses by farmers who do not have the capacity to transport their produce to urban centres or the capacity to store the produce properly. As a consequence many farmers are forced to sell their produce at uneconomically low prices. In the same line some unscrupulous traders have taken advantage of the situation and tend to barter farm products with other goods such as clothes for the produce. Thus denying the farmers of income needed to purchase the basic necessities. The elimination of domestic protection should ideally associated with a surge in exports or the at least the growth of domestic firms to do so. This was not the experience of Zambia. In part this could be due to the absence of real exchange rate depreciation and the remnants of negative protection arising from insufficient duty drawback provisions, which hinder exporters from accessing materials and intermediate inputs at world prices.⁵⁶

⁵⁶ World Bank, Report No 15477-ZA.

Annexe 3 Services negotiations: Doha and after

The Doha Development Agenda agreed to place the needs and interests of developing countries at the heart of the WTO Work Programme (paragraph 2 of the Doha Declaration) so that special consideration is given to developing countries at negotiations.

This principle is also expressed under the General Agreement in Trade in Services (GATS) Article IV, which seeks to ensure the increased participation of developing countries. Particularly, Paragraph 15 of Article IV and Article XIX.2 (containing Special and Differential Treatment related provisions for developing countries in the market access negotiations, implies that the Council for Trade in Services (CTS) “when reviewing progress in the negotiations, shall consider the extent to which Article IV is being implemented” and it should suggest “ways and means of promoting the goals established therein”.

Interest Areas of Developed Countries such as the US, EU and Japan

As per the request offer methodology of GATS, the US has put up request to 142 member countries. The areas chosen are telecom, banking energy, environment, education, professional and audiovisual services. The areas left out by the US are water supply, public health and school education (primary and secondary). The declared objective was that , rich and advanced developing countries such as India, Brazil, The Philippines, etc will be asked for most of the concessions.

The requests were both sectoral (12 sectors) and horizontal (for mode of service sector under GATS). 12 sectors are: Telecom, Financial Services, Express delivery services (courier), Energy, Environmental Services, Distribution, Education and training, Lodging and tourism, Professional services, Computer and related, Advertising and Audiovisual services.

The US proposal also contains several suggestions for removing barriers across the four modes (cross border supply, consumption abroad, commercial presence and MNP) of services such as (economic need tests, Investment approval procedures) mode three, commercial presence and increasing entry into temporary movement of professionals (mode four). Regarding the domestic regulation aspect, US requested to all members to make their national likening more transparent and notify all new changes in advance before their adoption.

EU request on Services

EU has put up request to 109 member countries. The EU request covers most of the services sectors identified by the WTO, except for education and services. The areas covers under EU request include reclassification proposals on energy and environmental services.

Issue of credits for autonomous liberalisation

The issue of 'credits' for autonomous liberalisation has been one of the contentious issues among the members in the ongoing Services negotiations. As of the December 9 meeting of 2002, consensus could still not be established on the modalities for this issue mainly due to a group of developing countries demanding differentiated treatment between the developed and developing countries requesting 'credits' for unilateral liberalisation measures. While the new draft levels the two country groupings it adds that members when granting 'credits' should fully take into account developing countries flexibility under the GATS as well as the "lower level of development of individual country members, particularly the least developed among them".

The proposal according to developed member countries such as Japan, the US and those of the EU was termed as an "interesting and useful contribution" to the ongoing negotiations. However, the developed countries were of the view that, for instance, the demand for the provision of technical assistance would be going beyond the negotiation mandate while that of full national treatment would prejudge the negotiating outcomes.

However, the developing countries such as Brazil, Argentina, India, Pakistan, Egypt, Indonesia and Thailand rejected the new draft saying that it implied graduation (that is, differentiated treatment) within developing countries themselves, an idea being pushed by members such as the EC and the US in the Doha Round negotiations. The developing countries though would push to avoid the developed members from turning the whole 'credit' issue against the developing countries. In fact this differentiated treatment of poor countries as the whole basis of negotiation strategies of rich countries at the WTO and also the EPA negotiations under the ACP-EU Cotonou Agreement.

Annexe 4 Indicators of malnutrition levels by province, selected years

	1991	1992	1993	1996	1998
Stunting (%)					
Zambia	40	48	51	50	53
Underweight (%)					
Central	22	26	19	21	-
Copperbelt	23	22	17	22	26
Eastern	28	28	26	19	26
Luapula	30	31	36	36	13
Lusaka	21	17	21	19	31
Northern	34	31	33	33	20
Northwestern	19	16	36	32	-
Southern	18	22	25	25	25
Western	22	33	29	27	20
Zambia	23	25	27	25	24
Northern	8	4	7	6	6
Northwestern	14	3	6	6	-
Southern	7	7	5	4	4
Western	5	5	7	4	4
Zambia	6	6	5	5	5

Source: Living Conditions Monitoring Surveys- various years (cited in ASIP evaluation 2004)