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ZAMBIA

Diagnostic Trade Integration Study Policy Summary

Expanding exports is a key driver of economic growth and poverty reduction in Zambia.¹ With more than two-thirds of the population subsisting on less than \$1 a day, the domestic market is too small to support the growth in production and employment needed for a major reduction in poverty in a sustained way. So increasing exports will be a major driving force for growth of production and employment.

There are strong complementarities between export promotion and private sector development. Competing in export markets requires a strong and dynamic private sector. The private sector cannot flourish if it produces only for a small domestic market. So export promotion and private sector development need to take a central place in government's development strategy.

Exports are responding to improvements in the policy environment. The reforms implemented since 1992 have improved fiscal, monetary, and financial management, strengthened the role of the private sector, and transformed the trade regime into one of the most open in Africa. These reforms encouraged the expansion of nontraditional exports and helped arrest and reverse the economic decline. The share of nontraditional exports in total exports increased from 8 percent in 1990 to 38 percent in 2003. Since 1999 per capita income has grown at an average of about 2 percent—the longest uninterrupted growth in Zambia's history.

The Zambian economy has the potential to diversify more widely and achieve faster export growth. The highest potential sectors are tourism, gemstones, floriculture, horticulture, agro-processing, cotton, and textiles and garments. Realizing this potential requires a more comprehensive and consistent policy package—to lift the binding constraints to export promotion and private sector development.

Better trade policies are necessary for accelerating export growth but are not enough. It is also necessary to ensure macroeconomic stability, improve the business

¹ This policy summary presents the main findings at the Zambia Diagnostic Trade Integration Study. That study reviews Zambia's trade policies and performance, assesses the potential for export diversification, identifies the main constraints to increasing exports, evaluates trade capacity and policy coordination, and develops an Action Matrix that summarizes the key trade-related policy reforms and technical assistance needed to remove these constraints. The study supports the Government of Zambia in (a) building national consensus around these reforms, (b) mainstreaming trade priorities into its development and poverty reduction strategies, and (c) enhancing trade capacity in and outside government to formulate and implement trade policies and effectively participate in trade negotiations.

climate, and deliver infrastructure services to encourage private investment in export-oriented sectors.

The immediate priorities in trade policy are:

- **Making export incentives work for exporters.** How?
 - Streamline the operating procedures for the duty drawback scheme.
 - Ensure full and timely reimbursement of actual duties paid.
 - Improve the management of bonded warehouses and the Removal in Bond facility.
 - Prepare standard operating guidelines and a procedures manual prior to implementing the Export Processing Zone Act.

- **Improving trade facilitation.** The key measures:
 - Improve efficiency in customs administration through upgrading equipment and infrastructure, integrating the border agencies, and developing a single processing and payment window for all border agencies.
 - Reduce border clearance times through undertaking a Cargo Release-Time study and implementing its recommendations, improving transit and clearance procedures, and establishing a 'fast-track' facility.
 - Reduce transport costs through augmenting capacity in the transport industry with training in regulations, logistics, financial management, and marketing.
 - Improve the standards infrastructure by amending the Standards Act to separate standards testing from the regulatory functions of Zambia Bureau of Standards and increase the role of the private sector in testing and certification.

- **Enhancing capacity to formulate, coordinate, and implement trade policy and negotiate trade agreements.** This will require:
 - Establishing a trade policy analysis unit in the Ministry of Commerce, Trade and Industry.
 - Expanding and training trade staff in and outside government.
 - Supporting the establishment of the Zambian Institute for Policy Analysis and Research, with a dedicated trade economist.
 - Including customs clearance and trade facilitation issues as a standing agenda item for the National Working Group for Trade.
 - Incorporating trade issues explicitly into the interagency policy formulation and implementation mechanism set up following the Livingstone Forum.

While further liberalization of imports is not as high a priority, duties on imported capital goods should be removed to stimulate private investment. Zambia has liberalized its imports significantly since the early 1990s. Additional tariff reform should be considered as a medium-term objective to be addressed on a most favored nation basis in negotiations for an Economic Partnership Agreement with the EU.

Market access is not a binding constraint to increasing and diversifying exports. Most of Zambia's exports face zero or low tariffs and qualify for preferential access to the major developed country and regional markets. **Zambia needs to participate actively in global and regional trade negotiations to ensure that its longer term interests are adequately reflected in the outcome.** In trade negotiations, the priority issues for Zambia are:

- **Doha Round.** Zambia should use its scarce resources to focus on agricultural subsidies (especially in cotton and sugar), trade facilitation, and special and preferential treatment.
- **Economic Partnership Agreement with the EU.** Maintaining market access to the EU does not require Zambia to sign an Economic Partnership Agreement unless it offers benefits beyond those provided by the Everything-But-Arms Initiative. In negotiations, Zambia should push for improvements in rules of origin, increased financial assistance to address supply-side constraints, and adequate flexibility to accommodate differing conditions in the Eastern and Southern Africa group.
- **The Africa Growth and Opportunity Act of the United States.** Zambia has benefited indirectly from AGOA's apparel provision by increasing exports of cotton lint and yarn to South Africa. Increasing the direct benefits requires Zambia to address many of the supply-side constraints that influence competitiveness (physical and human infrastructure and trade facilitation).
- **COMESA and SADC.** To maintain access to regional markets, Zambia does not have to move toward a customs union with either COMESA or SADC. Zambia should focus on strengthening the existing free-trade area arrangements and enhancing the supply-side response. This could include improving the rules of origin, increasing customs cooperation, harmonizing policies and overlapping trade arrangements, and promoting joint infrastructure projects.

Key requirements for effectively implementing an export-oriented strategy include:

- **High-level political commitment.** Achieving export-oriented growth requires a high-level political commitment to ensure that Zambia's development strategy incorporates export promotion and private sector development.
- **Mainstreaming trade policy.** Removing trade-specific constraints requires export promotion to be center stage. Export-oriented private-sector-led growth

must be fully integrated into the Poverty Reduction Strategy Paper and the National Development Plan.

- **Coordination within government.** Formulating and implementing trade policies requires actions by a wide range of ministries and agencies. It is vital that government speaks with one voice. Improving interagency coordination and implementation is necessary.
- **Effective public-private partnership.** Realizing private-sector-led growth requires effective cooperation and coordination between the public and private sectors at all levels. It is important to build on the momentum of the Private Sector Development Strategy, prepared in close cooperation with the private sector.
- **Donor coordination.** Zambia receives assistance from a variety of bilateral and multilateral sources. The findings of the Diagnostic Trade Integration Study provide the basis for coordinating donor assistance, identifying priorities, and determining the contributions of donors supporting Zambia's export-oriented private-sector-led development strategy.