

FACTSHEET



EMBASSY OF FINLAND
LUSAKA



Zambia's Diagnostic Trade Integration Study (DTIS)

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ZAMBIA'S DIAGNOSTIC TRADE INTEGRATION STUDY (DTIS)

This Factsheet summarises the main findings of Zambia's Diagnostic Trade Integration Study (DTIS). DTIS is a review of Zambia's trade policies and performance. It assesses Zambia's potential for export diversification, identifies the main constraints to increasing exports, evaluates trade capacity and policy coordination, and develops an Action Matrix towards key trade-related policy reforms. It corroborates the need for the Government of Zambia to (a) building a national consensus around these trade-related policy reforms, (b) mainstreaming trade priorities into its development and poverty reduction strategies, and (c) enhancing trade capacity within and outside government entities..

KEY MESSAGES (TRADE POLICY REFORMS)

Expanding exports is a key driver of economic growth and poverty reduction in Zambia.

With more than two-thirds of the population subsisting on less than \$1 a day, the domestic market is too small to support growth in production and employment, needed for significant reduction in poverty in a sustained manner. So increasing exports will drive growth and increase employment opportunities.

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 be aligned and inserted at the center of the 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 non-traditional exports in total exports increased from 8 percent in 1990 to 38 percent in 2003. Since 1999 per capita income has also grown at an average of about two 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, textiles and garments. Realising 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.

Further, it is also necessary to simultaneously ensure macroeconomic stability, improve the business climate, and deliver infrastructure services to encourage private investment in export-oriented sectors.



IMMEDIATE PRIORITIES (SUGGESTED MEASURES)

Making export incentives work for exporters

- ☞ Streamline the operating procedures for the duty drawback scheme, and 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 (2001).

Improving trade facilitation

- ☞ Improve efficiency in customs administration through upgrading equipment and infrastructure, integrating the border agencies, and developing a single window system.
- ☞ Reduce border clearance times through undertaking a 'Cargo Release-Time' study and establish a 'fast-track' facility.
- ☞ Reduce transport costs through augmenting capacity in the transport industry with training in regulations, logistics, financial management and marketing.
- ☞ Amend the Standards Act to separate standards testing from other regulatory functions of the 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

- ☞ Establishing a trade policy analysis unit in the Ministry of Commerce, Trade and Industry.
- ☞ Expanding and training professionals within and outside government.
- ☞ Supporting the establishment of the Zambian Institute for Policy Analysis and Research, with a dedicated section on Trade Policy issues. s.
- ☞ Including customs clearance and trade facilitation issues as an important 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 Private Sector Forum (*Livingstone Forum, 2004*).

OTHER RECOMMENDATIONS

(A) TRADE NEGOTIATIONS

Zambia has liberalised 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.

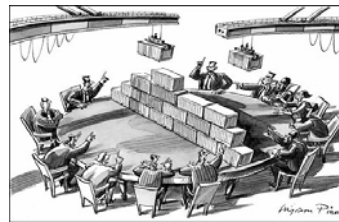
While further liberalization of imports is not a high priority, duties on imported capital goods should be removed to stimulate private investment.

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.

Market access is not a binding constraint to increasing and diversifying exports.

In the realm of trade negotiations, the following issues should be considered as priorities:

- **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 (EPA) 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 (EBA) 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 (AGOA)** . 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 (human and physical 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 (RoO); increasing customs cooperation; harmonizing policies and overlapping trade arrangements; and promoting joint infrastructure projects.



OTHER RECOMMENDATIONS

(B) TOWARDS AN EXPORT-ORIENTED STRATEGY

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 at the centre of the trade policy. 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 in one unified voice. Improving interagency coordination and implementation is necessary.
- **Effective public-private partnership.** Realising private sector-led growth requires effective cooperation and coordination between the public and private sectors at all levels.
- **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.

This Factsheet has been prepared by CUTS International Lusaka as part of the Better Exploration of Trade as a Means for Poverty Reduction-BETAMPOR Project. The objective of the BETAMPOR project is to build capacity of state and non-state actors (especially at the grassroots) in order to strengthen and influence participation in the EIF process thus helping promote the utilisation and ownership of the process.

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