Country Economic Report 2002:5

Impacts of Trade Liberalisation in Zambia

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Sida
SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

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ISBN 91-586—8558-8
ISSN 1404-031x

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September 2001

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1 Introduction

In the 1960s, Zambia was one of the richest countries in Sub-Saharan Africa. The mainstay of the economy was production and exporting of copper. The earnings from copper exports had helped Zambia to develop relatively advanced infrastructure and public services. In the late 1960s, Zambia switched her development strategy to one of African socialism, which meant extensive state control of the economy. It meant that the engine of growth, the copper mines, was nationalised. The government also embarked on a state-led import-substituting industrialisation drive, which led to the creation of a vast structure of parastatal industries requiring a large amount of foreign exchange to operate.

In the 1970s, the copper prices on the world market fell, and the output of the nationalised copper mines started to decline. Zambia's growth, which was founded on high copper revenues, also slumped. With the fall in copper revenue, the import-substituting industries virtually came to a standstill. The plants exhibited excess capacity because the raw materials, equipment and spare parts could not be imported due to shortages of foreign exchange. The government had to reduce its expenditures, since the fall in copper earnings affected tax revenues. The rapidly falling per capita income and the reduction in social service provision meant a fall in the quality of life.

The government initially tried to postpone adjustment by borrowing money and by introducing various administrative regulations and control measures. However, in the early 1980s, the economic crisis made economic adjustment measures inevitable. A series of adjustment programmes under the auspices of the IMF and World Bank were initiated during the 1980s, and trade liberalisation was part of these reform programmes. None of the programmes was fully implemented. In May 1987, the government broke with the IMF/World Bank, and initiated a home-grown programme, the New Economic Recovery Programme (NERP), under the theme "Growth from Own Resources". The decision to go it alone only lasted for two years. In June 1989, the government returned to the IMF/World Bank fold due to mounting donor and domestic pressure. A number of reforms and liberalisation measures were restarted, such as decontrolling the prices of all goods except that of maize, trade reforms, parastatal and civil service reforms, and also tight monetary and fiscal policies. In the initial period, the programme registered some progress, but in 1991, the government backtracked on its reform measures as it had done many times in the 1980s. In the election of

1991, the opposition that had united under the umbrella of the Movement for Multiparty Democracy (MMD) finally toppled the Kaunda regime, which had been in power since independence. The new government introduced its Economic Reform Programme (ERP) that had as its main goal to arrest the economic decline with a strong commitment to economic liberalisation. This paper will focus on the MMD era.

Trade liberalisation was one of the policies that were to be undertaken to help revive the economy. The purpose of this study is to examine what impact trade liberalisation measures have had on the Zambian economy. We start in Section 2 by presenting some trade theoretical starting points for our subsequent analysis. In Section 3, we summarise the macroeconomic reforms and economic outcomes of the last decade, while we review specifically the trade and exchange rate reforms in Section 4. We then go on to investigate how those policy changes have affected the Zambian economy. In Section 5, we look at a range of different costs that affect Zambia's competitiveness. Then in Section 6, we investigate how Zambia's trade structure has changed during the reform period, and how the structure of the economy has been affected. Section 7 looks briefly at the impact of trade reform on government incomes. Section 8 investigates the impact of the reforms on income distribution and poverty, while Section 9 concludes the paper with some policy conclusions.

2 Trade Theory and Commercial Policy

In this section, we provide some theoretical starting points of the analysis. First we introduce the concept of comparative advantage and explain its implications. Then we review some concepts that will guide us in the analysis, and finally we discuss some aspects of international trade policy.

2.1 What is Comparative Advantage?

The basis for trade in international trade theory is comparative advantage. This can either be based on cost differences as in the Ricardian model. The cost differences are there due to differences in technology across countries. The Heckscher-Ohlin model, on the other hand, assumes that technologies are the same across countries. Here, comparative advantage is due to differences in factor prices across countries. These in turn reflect differences in relative factor supplies.

It is important to note, and this is something that businessmen tend to overlook, that all countries have a comparative advantage in some type of business and that they can always export something in a competitive environment. The mechanism that ensures this in practice is the exchange rate. This must adjust so that exports and imports balance, and in doing so it will ensure that some sectors become internationally competitive. The fact that all of, for example manufacturing, is internationally uncompetitive is thus no evidence for trade interventions or that the country cannot compete. It may instead be an indication that this is a sector where the country does not have a comparative advantage.

2.2 *Theoretical Starting Points*

According to the classical Heckscher-Ohlin model, factor proportions determine a country's comparative advantage. When a country is open to the rest of the world, its relative factor abundance will determine the pattern of production. The Heckscher-Ohlin model thus provides a framework that helps explain how an economy is affected by international trade. For the case of Zambia, the standard two by two model needs to be extended to at least a three-factor model. Since Zambia is natural resource abundant, the incorporation of the factor "land" in the analysis alongside labour and capital is essential. If prices of all goods are

determined by external forces, such as conditions in the international markets plus trade policy and transport costs, we can derive the factor prices from such a model set-up. Jones (1979) shows in a three factor, two-sector model how returns on the specific factors are changed more dramatically than those of the mobile factors when prices of goods change. Irwin (1999) provides a useful extension to the three by three dimension. Deardorff (1984) and Leamer (1987) analyse further extensions into the many factor, many goods realm, and show that the path of specialisation and the implied changes in factor returns may be more complex in such a setting. Other authors have extended the analysis to take into account, for example, human capital or skills (Wood, 1994, 1995, Wood and Mayer, 1999), while Sachs, Young, and Zhang (1999) and Cheng, Sachs, and Yang (1999) have extended the Heckscher-Ohlin model to include transaction costs and technologically determined comparative advantage. All these models contribute to our understanding of the impacts of trade liberalisation on domestic production structure and factor prices.

Trade models generally assume that economies are flexible and that they, after a policy change, adjust to a new market clearing equilibrium. This requires that policy changes really lead to corresponding changes in domestic product prices. These changes are then assumed to induce the re-allocation of resources between sectors. When an economy is opened up and relative prices move closer to international relative prices, we would expect a new pattern of specialisation to better reflect the existing comparative advantage. These reallocations will finally establish a new equilibrium with a new set of factor prices.

In the three-sector model, liberalisation would primarily benefit the factor which is specific to the exportables sector, while hurting the factor which is specific to the importables sector. The impact on the mobile factor is less dramatic. In the case of Zambia, the winning factor would be land used in exportables production, while the losing factor would be capital used in the importables (import-substituting) sectors. The mobile factor in this model is labour, and we would thus expect the effect of liberalisation to be less clear-cut for wages.

2.3. Trade Policy

A large literature exists on the relationship between trade policy and growth. Morrissey (1995), for example, identifies two ways in which trade policy can enhance economic performance. The two ways are both associated with an export-oriented trade stance; the first

way relates to an improvement in the allocation of resources, while the second way relates to greater openness to new technologies and opportunities (p. 606).

In the past, developing countries often supported inefficient import-substituting activities. These activities operated behind high tariff walls, with preferential treatment being awarded to the import-substituting activities for getting scarce foreign exchange resources for importing machinery and inputs. This bias, along with the overvalued exchange rate, resulted in exports not expanding as they should have. However, trade reforms and policies aimed at reducing the anti-export bias ensures that resources are better allocated.

The other way that trade policies can enhance growth is by helping the export sector to have access to technical knowledge from world markets. By integrating with global markets, firms in the export sector are forced to be more competitive, and hence helping to facilitate growth (Santos-Paulino, 2000; and Morrissey, 1995).

In order to take advantage of the benefits of export-oriented growth, developing countries have had to make reforms in their trade policies. The trade reforms have in most cases been part of a wider structural adjustment programme under the tutelage of the IMF and World Bank. Among the reforms that are instituted are removal of quantitative restrictions, reduction in the level of tariffs and the dispersion of tariffs, and export promotion activities such as export subsidies. Zambia has not been left out in the wave to reform its trade policies. Section 4 discusses the trade reform process.

3 Reforms and Economic Outcomes of the MMD Era

The MMD won the elections in 1991 on a liberal platform. The new government took advantage of its broad popular support and tried to distinguish itself from the old Kaunda government that was associated with economic controls and lack of credibility in managing the reform process. As soon as it was elected, it introduced its Economic Reform Program (ERP) with the goal of arresting the economic decline. The donors responded to the government's efforts by resuming their support to Zambia. In this section, we summarise the economic reforms and outcomes under the MMD era.

3.1 Reforms under the MMD since 1991

During the first two years of the MMD government, there was rapid liberalisation of external trade and payments system, and a movement towards a market-determined exchange rate. Over a period of five years, all licensing and quantitative restrictions on imports and exports were removed, and the tariff structure was rationalised. The maximum rate came down from 100% to 25% and the number of bands from 11 to 4. Thus, already by 1994, Zambia had one of the most liberal foreign exchange regimes in SSA. This process is discussed in greater detail in Section 4.

Although the combined effects of a large devaluation, decontrol of prices and a highly liquid economy had led to high inflation, the government had regained a measure of control by mid-1993. Inflation has since fallen substantially, though remaining fairly high (Table 3.1).

Table 3.1: Annual price changes by income group and residence in percent, 1990-2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Low income urban	110	97.6	178.3	182.7	53.1	35.8	42.0	23.3	23.7	25.8	24.1
High income urban	95.7	104.4	150	176.1	57.5	35.3	39.2	24.9	24.9	27.8	29.2
Non-urban	104.8	95.3	169.0	188.1	53.6	34.2	46.3	24.7	24.8	26.7	25.0

Source: Central Statistical Office, Quarterly Statistics, Macroeconomic Indicators March 2001

The reform programme has implied a tighter fiscal and monetary policy. A cash budget was introduced in 1993. Under this system, expenditures are authorised only when revenues are received by the Ministry of Finance and Economic Development (MoFED). This meant that expenditures would be based on available funds, with the Bank of Zambia no longer in a position to support deficit financing (Mwenda, 1999). This would make it impossible for the

government to resort to money printing to cover expenses. In a situation with serious problems of time-inconsistency and discretionary fiscal policies, this may have been the best option available to contain the exploding budget deficit. Still, compliance has been less than perfect and the Bank of Zambia has provided some short-term bridging finance (Adam and Bevan, 1996). The World Bank's evaluation of the cash budget is that it now has a negative effect on the efficiency of government operations through the erratic, unpredictable and wildly fluctuating cash releases to the various ministries. It is argued that there has been a virtual collapse of fiscal discipline and transparency and a complete demise of the annual budget as an instrument for allocation. The monthly allocations have opened the floodgates for all kinds of requests and demands, which are often triggered by short-term political considerations.[1] The conclusion is that the system should be gradually phased out and be replaced by a medium term expenditure framework (World Bank, 2000b).

Zambia is in the process of developing such a system and implementing a financial management information system that will make it possible to improve budget control. But the main problem according to the analysis is that the implementation of the budget is deficient. It is noted that there is little point in improving the techniques as long as the budget remains "largely a theoretical document with little relevance in the real world" (World Bank, 2000b, p. 49).

The fiscal weakness of the country has sometimes not been fully appreciated when one looks at the central government budget only. But one also needs to consider local governments, state-owned enterprises, pension funds, special funds, and quasi-fiscal activities to get the full picture. There has been a very substantial quasi-fiscal deficit. There must also be better control on these extra-budgetary expenditures if fiscal control is to be achieved.

Aside from the cash budget, the government has also attempted to balance the budget by increasing revenue. In 1993, a Revenue Board was introduced, with a value-added tax (VAT) put in place in July 1995, while user fees have been introduced for most social services. The Zambia Revenue Authority (ZRA) has increased resource mobilisation in the form of taxes, while non-tax revenue collection still remains poor (Table 3.2). ZRA is at present run by a

[1] Over-commitment and arrears remain a serious problem. In 1998, more than 10 percent of expenditures were spent to pay for expenditures that were made in violation of the budget regulations (World Bank, 2000b, p. 34-

New Zealander. Being a foreigner, he is to some extent protected from pressures, which may help in the Zambian setting.

Table 3.2: Revenue in percent of GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Revenue (Revenue and Grants)	24.6	32.9	33	26.3	30.2	29.0	26.8	24.8	24.9	25.5	26.7
Grants	4.3	14.2	14.7	10.5	10.1	9.2	6.1	5	6.5	7.9	8.4
Grants/Total	17.5	43	44.5	40	33	31.7	22.3	20	26	31.8	31.5

Source: Central Statistical Office, Quarterly Statistics, IMF 2000 Review

The most important part of the budget balancing process was expenditure reduction, which was virtually unmatched in Africa. Capital expenditures were reduced, subsidies were eliminated, military spending was reduced, and the civil service experienced severe real wage reductions. However, the financial liberalisation implied that interest charges on domestic debt increased (Table 3.3).

Table 3.3: Selected expenditures by functional classification in percent of total expenditure, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998
General Public services	24.9	26.1	35.6	28.1	28.9	25.9	13.4	15.4	16.1
Defence	15.6	10.1	12.8	7.8	8.4	7.9	6.4	6.3	9.6
Health	10.3	5.9	6.2	8.4	8.8	9.2	9.4	11.1	10.8
Education	9.3	10.9	9.1	9.7	9.9	11.3	13.5	15.8	14.4
Debt service	5.9	6.6	11.8	24.1	20.4	12.8	17.2	13.1	11.4

Source: Central Statistical Office, Quarterly Statistics

During the first half of the 1990s, the government liberalised both maize and fertiliser marketing, eliminating the associated subsidies. Most of the labour market controls were also removed, but the most far-reaching liberalisation efforts were in the financial sector. The government freed interest rates in September 1992 and liberalised the Treasury bill market in January 1993. The immediate effect was a rise in interest rates and positive real rates were achieved in mid-1993 (Table 3.4). In February 1994, the government removed controls on the capital account for foreign payments.

The monetary stance has been to restrict the growth of money supply. The attempts were not very successful, however, until about 1993, when institutional reforms were introduced at the Bank of Zambia (Adam, Bevan and McBrady, 1993b). Money supply growth has since then been contained most of the time.

35). This then meant that other regular budget items had to be reduced accordingly. There were substantial over-spending in general public services and massive cuts in economic services and also some cuts in social services.

Table 3.4: Monetary aggregates per cent, 1990-2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Money supply growth, M2		139	65	122	46	48	62	18	21	32	63
Bank rate	34	42	54	122.5	24.8	51.5	69.8	23.3	43.6		
Inflation	107	97.7	165.7	183.8	54.6	34.9	43.1	24.4	24.5	27.1	25.9

Source: Bank of Zambia, Macroeconomic Indicators March 2001

Zambia's experience also highlights the importance of policy sequencing. As pointed out above, agricultural reforms were undertaken before macroeconomic stability was achieved, reducing the agricultural response. Related to this was the slow rehabilitation of the road network making market access very difficult. Collier and Gunning (1999) have argued that Zambia undertook financial adjustment measures, when in fact a fiscal stabilisation effort was what was required. Zambia's financial liberalisation was premature and thus had a negative effect on the economy. The move to capital account convertibility and interest rate liberalisation was also undertaken before stabilisation had been achieved. Inflation shot up, while real tax receipts declined. The government then had to reduce government expenditures by even more than planned.

Together with the Economic Recovery Programme for the period 1991 to 1995, there was a Rights Accumulation Programme (RAP) supported by the IMF. At the end of 1995 the government had made enough progress under RAP to resume borrowing from the IMF. This was the first time that Zambia had actually completed an agreement with the Fund.

We now look at some aspects of the reform process in more detail.

Privatisation

A Technical Committee on Privatisation was set up already in 1990, but no privatisation was undertaken before Kaunda's departure. Even after the MMD came in, progress was slow until about 1994, largely due to resistance against privatisation in the cabinet. The Zambia Privatisation Agency (ZPA) was launched in 1992, but by the end of 1993 it had privatised only two firms. During 1994, the donors pressed for more rapid reform. One serious conflict concerned Zambia Airways, which at the time received a subsidy from the government equal to about one percent of GDP. Flights to Europe were often crowded with non-paying passengers such as ministers and their relatives. During the run up to the Consultative Group

meetings in 1994, donors forced the government to close the airline. In the second half of 1995, the privatisation process gathered momentum, and today 247 firms out of a total portfolio of 275 firms have been privatised. It was not until 1996, however, that the government acceded to the privatisation of the Zambia Consolidated Copper Mines (ZCCM), the major asset. A process of tendering ensued, but the parties failed to reach foreclosure. The government lifted the ZCCM privatisation out of the Zambia Privatisation Agency and assigned it to a former head of the company. During 1998 and 1999, ZCCM was losing about one million dollars per day. There was finally an agreement at the end of 1999, which meant that the bulk of the mining assets reverted to the original owner, the Anglo-American Corporation, in March 2000. The drawn out process for the privatisation of the mines had serious consequences for the economy, including the aid embargo imposed by donors in a bid to elicit progress on privatisation.

The most important strategic error in Zambia has been the mishandling of the earlier engine of growth, that is, the copper mines. These were nationalised in the 1970s, and were then mismanaged by the government. Surpluses were not reinvested in the mines but were diverted to politically more important uses outside the copper sector. There was inadequate supervision and management of the mines, where political considerations often outweighed economic considerations. This neglect meant that copper production fell from 825,000 tonnes in 1969 to 250,000 tonnes at the end of the millennium. It was primarily this decline in output that caused the income decline and not price changes. Prices fluctuated in the 1980s and 1990s, but there was no clear trend.

Although the ZPA has privatised 247 units, it still has some problems left, such as a fertilizer plant, the Nitrogen Chemicals of Zambia, Kafue Textiles, and Mamba Collieries. The national railway, the Zambia Railways, is also in the pipeline for privatisation, as is the Zambia National Commercial Bank, which has been forced to lend money to the state oil company. It made a loss of 29 billion Kwacha during the first quarter of 2001, and some sources say it is really even larger than that. The IMF is pressing for it to be closed. The electricity parastatal, ZESCO, is also waiting for directives from the government, and the Airports and Telecom are also on their way.

Public Sector Reforms

The Public Sector Reform Programme was launched in 1993 with the aim of cutting the civil service by 25% over a three-year period, making it possible, thereby, to increase remuneration for remaining employees. However, while 15,000 contract employees were retrenched already in 1992, there has been no further retrenchment. Between 1991 and 1996, the civil service actually increased. The government argues that the social cost of retrenching civil servants is too high to make it a viable reform option. Still, the bloated and inefficient public service remains a serious growth constraint. The administrative capacity has also deteriorated further due to the heavy toll of HIV/AIDS.

3.2. Economic Outcomes

GDP Growth, Investment, and Employment

GDP growth has been uneven during the reform period (Table 3.5). There has been drought, which has affected agriculture, while manufacturing output has been affected by the removal of protection, the monetary squeeze, low internal demand and the parastatal reform. The population growth rate fell (at least) from 3.1% to 2.4% per year over the period. Per capita incomes fell by about 20 % between 1990 and 2000. The mining industry declined throughout (Table 3.6) due to the production problems of the ZCCM. Copper production in 2000 was 256,000 tonnes and is this year likely to be 310,000 tonnes. Long-term maybe 450,000 to 500,000 tonnes are possible, but the country will not get back to the old 700,000 level unless new mines are opened up. We also note that terms of trade have shown a declining trend since the mid-1990s, largely driven by negative changes in copper prices (Table 3.7). Finally, we may also note that there has not been any significant recovery of investment in Zambia (Table 3.8).

At present the Zambia Investment Centre (ZIC) functions as a one-stop-agency for investors. Among the benefits that it may offer investors are a 2-5 years of tax holiday and duty free import of investment goods. An investment license is needed for a foreigner to be able to buy property or land. It costs some 2000 dollars, which means that domestic investors often do not try to get it and go ahead and invest in any case. The investment license is associated with guarantees against unfair expropriation etc. Secondary licenses take some time to obtain, but

the process has been simplified. The ZIC notes that commitments to invest which are converted to actual investment have increased from some 30% in the early 1990s to about 68% now.

Table 3.5: GDP and sector growth rates, 1990-2000 (change in per cent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total GDP	-3.4	-0.6	2.1	-0.2	-8.6	-2.3	6.6	3.3	-1.9	2.0	3.5
Nonagriculture	-2.5	-1.4	7.4	-6.6	-12.3	-7.8	8.2	5.1	-2.0	2.2	5.5
Nonmining GDP	-2.4	1.4	-0.1	1.8	-12.5	2.8	7.2	3.5	1.2	6.3	5.6
Real GDP per capita index	100	96.5	95.8	92.9	82.6	78.5	81.5	82.2	78.8	78.6	79.7

Source: Central Statistical Office, Quarterly Statistics, Economic Report 2000.

Table 3.6: Gross Domestic Product by sector of origin at current prices, 1990-2000 (in per cent of GDP at market prices)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture, forestry and fishing	18.2	15.8	21.3	30.5	13.5	16.2	15.5	16.4	18.8	22.0	24.7
Mining and quarrying	9	8.4	5.6	8.8	16.7	14.4	12.1	9.9	6.3	3.7	2.9
Manufacturing	31.9	33.3	33.2	25	9.8	9.9	11.8	11.6	11.5	10.7	11.5
Utilities and transport	5.4	5.9	5.7	5.5	9.2	9.1	9.1	9.5	9.3	8.9	9.2
Construction	3.9	3.8	3.7	2.6	5.0	4.1	3.5	4.4	4.4	4.3	4.5
Wholesale and retail trade	9.6	11.6	7.1	9.3	14.8	14.6	17.5	16.6	17.4	19.2	17.6
Financial and real estate, bars, hotels	9.7	9.1	11	10.2	14.8	17.2	16.6	16.5	17.6	17.8	18.6
Public sector	6.2	6.4	7.5	6.9	8	8.4	7.1	8	8.5	8.1	6.9

Source: Central Statistical Office, Quarterly Statistics National Accounts Statistics, Economic Report 2000.
Note: Percentages are in terms of GDP at market prices, which include e g indirect taxes. They therefore do sum to less than 100%.

Table 3.7: Terms of trade and copper prices, 1990-2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Terms of Trade index (1990=100)	100	105.9	94.5	82.4	89.1	99.5	76.8	93.4	83.8	79.1	89.6
LME price index	90	80	78	65	79	100	78	78	56	54	61

Source: IMF. The price index series is from IMF (1999), IFS, and Macroeconomic Indicators March 2001

Table 3.8: Gross Domestic Product by type of expenditure, 1990-2000 (in per cent of GDP at current prices)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Public Consumption	14.8	16.2	17.9	13	13.1	15.5	18.3	17.5	15.8	13.4
Private Consumption	68.7	75.4	82.8	75.8	79.5	72.3	76.4	73.2	80.3	87.7
Investment incl change in stock	17.3	11	11.9	15	8.2	15.9	12.8	14.6	14.8	17.5
Trade balance	-0.7	-2.6	-12.6	-3.8	-1.0	-3.8	-7.5	-5.2	-12.5	-18.6

Source: Central Statistical Office, Quarterly Statistics National Accounts Statistics, Economic Report 2000 – new series from 1994.

The poor development of the economy has also been reflected in employment figures (Table 3.9). Paid formal sector employment is actually lower in 2000 than it was in 1990, and in particular we note the dramatic decline in industrial employment, including mining. The informal sector has had to absorb a large share of the labour force.

Table 3.9: Paid Employment by sector ('000)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Public	159	162	171	168	174	173	176	170	174	184	185
Mining and manufacturing	142	140	136	126	108	108	95	92	86	85	83
Agriculture	80	78	82	83	79	69	68	59	59	60	50
Other	162	164	158	143	136	135	140	155	157	148	158
Total	543	544	546	520	497	484	479	475	467	477	476

Source: Central Statistical Office, Quarterly Statistics, Economic Report 2000.

The economic decline is also reflected in the deterioration of a range of social indicators (Table 3.10).

Table 3.10: Selected Social Indicators, 1980-1998

	1980	1985	1990	1995	1996	1997	1998
Death rate, crude (per 1,000 people)	15..		15..	..		19	19
GNP per capita (constant 1995 US$)	515	421	408	360	377	382	366
Illiteracy rate, adult total (% of people aged 15 and above)	41	37	32	27	26	25	24
Life expectancy at birth, total (years)	50..		49..	..		43	43
Malnutrition prevalence, height for age (% of children under 5)	..	..	..	..	..	42	..
Mortality rate, infant (per 1,000 live births)	90..		107..	..		113	114
Population, total (million)	5.7	6.7	7.8	8.9	9.2	9.4	9.7

Source: World Bank (2000a), World Development Indicators CD ROM; CSO, (2000), Selected Socio-economic Indicators 1999.

It has been argued by Rakner, van de Walle and Mulaisho (2001) that aside from the external shocks, the poor performance of the economy is due to lack of a coherent strategy for economic growth. The slow reform of the mining sector did cost a lot in terms of lost momentum and financially in terms of subsidies throughout the 1990s. This foot-dragging also sent the wrong signal to potential investors about the government's reform commitment.

The HIPC Programme

It is clear that the debt burden is a serious threat to the economy, but the current acceptance into the HIPC programme should go some way towards solving this problem.[2] The Executive Boards of the IMF and the World Bank decided in December 2000 that Zambia qualifies for debt relief under the HIPC Initiative. It was emphasized that the budgetary resources released by debt relief were to be used for poverty reduction and social sector development.

Total debt-service relief under the HIPC amounts to 2.5 billion US$ in net present value terms or 62.6 % of the total debt outstanding at the end of 1999 after the full use of the debt relief mechanisms. Zambia has also requested the Paris Club to reschedule debt on Cologne terms. It is expected that the Paris club, at the completion point, will implement a stock-of–debt operation leading to a sustainable external debt position for Zambia (Table 3.11).

Table 3.11: Zambia: Debt Service paid and external Flows 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Debt service paid, US$ million	290	655	354	326	409	1584	319	217	147	136
Debt service paid in percent of exports of goods and non-factor services	21.6	56.0	29.6	31.2	34.8	120.4	28.7	17.6	18.0	16.2
Debt service paid in percent of GDP	7.7	19.4	10.7	10.0	12.2	45.7	9.7	5.6	4.6	4.3
Debt service paid in percent of government revenue	38.2	103.7	58.3	63.2	60.9	230.2	47.1	27.9	24.4	24.5
Gross external inflows (including rescheduling)	-	-	1106	795	550	1816	510	401	297	511
Net external flows (official)	-	-	752	469	141	232	191	184	150	375

Source: IMF and IDA (2000b), p. 19.

Zambia reached the decision point in December 2000, and the first interim relief started flowing in January 2001. At the end of 1999, Zambia had a total foreign debt of US$ 6.5 billion. After the predicted Paris Club forgiveness and various other debt relief, it has a debt

[2] HIPC is an attempt to provide comprehensive debt relief to the poorest and most indebted countries. The World Bank and IMF launched the first version of it in 1996. In 1999 it was enhanced following global consultations in Cologne, where it was considered necessary to provide more extensive and faster debt relief with clearer links to poverty reduction. IMF is the largest creditor followed by Japan and the World Bank. Multilaterals provide some 53%, bilaterals 46% and commercial sources 1% of the money.

stock of about 5.5 billion. It is estimated that 63% or 3.8 billion of the 5.5 billion debt is to be written off.

From January 2001, Zambia has started to receive interim relief from the World Bank, IMF and eventually also ADB and others. The end result of these relief measures will be that during 2001-2005, Zambia will lower its contractual debt service costs with US$260 million per year and during the period 2006-2015 by roughly 130 million per year. Compared to the actual debt service paid during 2000, however, Zambia will save only $30 million per year over the next 15 years. Between 2001-2003, when the completion point is expected to be reached, the bank will provide $61 million of the total write off of $885 million that it plans to provide on the total debt stock of 1.7 billion.

For Zambia to reach the floating completion point there are certain key objectives and reforms that have to be achieved. With regard to poverty reduction, it has to put a Poverty Reduction Strategy Programme in place through a participatory process, as well as a process of implementation and monitoring for at least one year. In the social sectors, it must make progress in the fight against AIDS, through the staffing of the AIDS Council, the integration of awareness and prevention programmes in at least ten ministries, progress in education reforms by increasing the share of education in the budget to at least 20.5%, raising the salaries to teachers in rural areas above the poverty line, and to put plans in place to increase retention of pupils in the poorer regions of the country. There has to be progress on the health front as indicated by the launching of a plan to combat malaria, the introduction of transparent procedures for the purchase of drugs, timely release of health expenditure data, and the actual cash releases to District Health Management Boards shall be at least 80% of the amounts budgeted.

There are also requirements for macroeconomic and structural reforms. Zambia is to maintain a stable macroeconomic environment as indicated by the criteria in the Poverty Reduction Growth Facility arrangement. The Ministry of Finance and Economic Development is to implement a pilot version of an integrated financial management information system in at least three ministries, implement a Medium Term Expenditure Framework prepared by MoFED and approved by the Cabinet, restructure and issuing of international bidding documents for the sale of a majority interest in ZESCO, the state owned power company, and Zambia National Commercial Bank.

3.3 Current Economic Issues

In 1999, Zambia entered into a Poverty Reduction and Growth Programme (PRGP) with the IMF that covers the years 2001 to 2003. The year 2000 saw an economic growth rate of 3.5%, which was an improvement compared to the preceding years. However, the rate of inflation shot up to 30%. One of the underlying reasons was (as usual) a weaker fiscal position than envisaged. Revenues and grants fell short of projections by about 2.2% of GDP, and this was mainly due to the lower than programmed inflow of foreign aid. The domestic fiscal deficit was 3.4% of GDP. Broad money expanded at 68%, while the targeted level was 25%. This was partly driven by the drastic depreciation of the Kwacha and the inflow of foreign deposits in connection with the newly privatised copper companies. It may well be that there was extra money emissions through the Zambia National Commercial Bank to cover the losses of government parastatals.

As a consequence of the fall in the Kwacha, there was a real depreciation of the currency during 2000. A major reason for the fall was the fall of confidence in the government. To deal with the depreciation, the government in December 2000 undertook a range of measures to stabilise the currency. It tightened the monetary policy by (a) increasing the statutory cash requirements, (b) reducing monthly limits on the rediscount of government papers, (c) raising the penalty rate for non-compliance with reserve and rediscount requirements. The BoZ also entered into extended open market operations. The end result of the package was that the currency appreciated by 15% during January 2001.

Some of the performance criteria agreed with the IMF for end-2000 were not met. Those were the budget balance, net domestic assets of the BoZ, and the ceiling on the accumulation of net tax arrears from ZESCO and ZNOC to the central government. Among the structural criteria the one on the privatisation of the petroleum sector was not met.

The current medium strategy of the government is expressed in the Interim-PSRP, which outlines how stabilisation is to be improved and structural reform deepened. Total expenditure 2001 is estimated to be 32% of GDP including HIPC related expenditures. The current account deficit excluding aid is expected to be 20% of GDP in 2001. Exports are expected to grow fast at 17%, mainly the mining sector at 22%, but imports will grow even faster. Copper and cobalt prices are expected to be high, but also export volumes of copper and cobalt are

increasing. The privatised ZCCM and newly established mining companies are doing well. Non-metal exports are expected to grow at 6%, due to the real depreciation of the Kwacha in 2000. Imports are expected to increase by 15%. The BoP-support is estimated to be 338 Million US$ and the projected debt service to be 160 Million US$. Since the country reached the decision point under the HIPC initiative in early December 2000, Zambia will receive interim assistance from the IMF of US$150 million. The government also believes that the Paris Club will grant a flow rescheduling agreement on cologne terms, which are better than Naples terms during the period until Zambia reaches the floating completion point for HIPC.

The crisis in Zambia National Commercial Bank (ZNCB) is a major problem for the government. Zambia National Commercial Bank is a state bank and it is the largest domestic bank. Non-performing loans constitute as much as one third of all loans in the banking system in Zambia, and most of those are with the ZNCB where more than 90% of the banks loans are non-performing. The situation started to develop when the bank was exposed to competition after the liberalisation of the economy in the early 1990s, at the same time as the bank has been forced to extend loans for political reasons to loss-making parastatals. In October 2000 the bank had a negative balance sheet capital. The bank has been given exemptions from provisioning requirements on non-performing loans by the Bank of Zambia. The problems of this bank obviously have to be dealt with, and the appropriate route seems to be to privatise it (or close it).

Under the agreement of the Fiscal Sustainability credit from the World Bank the government is to introduce measures in the petroleum industry. The private sector will be free to import petroleum products and Zambia National Oil Company (ZNOC) will not be involved in regular oil exports.

There has been a proposal to privatise the electricity company ZESCO, but so far this has not been done. However, this is one of the key conditions for the HIPC completion point. There are several steps planned to improve economic and financial governance, and the Accountant General and the Auditor General are to be strengthened.

Deficit financing is now possible to some extent. The BoZ provides bridging loans to take the government to the end of the months, when these are meant to be made good. Unfortunately

that does not happen always. Since last year this had added to arrears instead. The deficit in 2000 was about 300 billion Kwacha.

There are some good signs on the inflation front. The inflation rate month-on-month was –0.6% in April and –1.5% in May. The 12-month rate was therefore down to 22.2%, but this is still above the targeted rate of 15.5%.

Zambia hopes to reach the HIPC completion point sometime in 2002/3. The agreements should already now be reflected in the budget with increased social expenditures. The current target is 37%. This means that the pressure on the budget in the short term is actually higher, because the debt relief has not taken effect as yet but some conditions have to be met. Canada, Italy and France have however already written off bilateral debts.

3.4 *The Political Constraints and Rent Seeking*

In 1991, power in Zambia was transferred from President Kaunda and the United National Independence Party to Chiluba and the Movement for Multiparty Democracy. The transfer of power was almost unique in Sub-Saharan Africa at that time, since it occurred peacefully through an election. In the debate on the process the civilian society has been noted as an important force for change. The four groups that were important were the business community, the trade unions, the churches, and academics and intellectuals. It is true that these groups were important agents of change, but as is argued by Bartlett (2000) the "older political logic" does not disappear just because an authoritarian regime is threatened by forces from the wider society. In the Zambian process some groups were effectively excluded from the process of change, and the outcome of the transfer negotiations paved the way for resurgence of authoritarianism under the new MMD government. A fairly homogenous group took power and within a reasonably short period of time it started to act as almost as if it were a one-party state. The older political logic reasserted itself! Rent seeking and clientialism became as important as ever before, and corruption scandals have become common. Conflicts have been brewing and the government declared its first state of emergency already in 1993. Spoils politics still is very important. Corruption among Chiluba's ministers indicates that corruption still is important and that personal accumulation from state resources is an important motivating force. The government has also stated that top government positions should be reserved for party members, and that development funding should be channelled to

MMD-voting districts. It thus seems as if the rent-seeking possibilities of politics is still a major motivation in Zambia, and that the emergence of a more active civil society has not changed the basic rules according to which the game is played. This political culture is one of the major development problems in Zambia, and possibly the main one.

Politically, the last year has been very turbulent. Presidential and parliamentary elections are due before the end of 2001. President Chiluba was aiming to get a change in the constitution making it possible for him to run for a third period, but a revolt from within the MMD and the civil society at large put a stop to that. Several ministers went into opposition and some have started their own opposition parties. Chiluba gave up the plan to change the constitution to make it possible for him to run for a new period and will now instead become the chairman of the party.

During the recent year many scandals have been revealed. Whether this is a sign of increasing corruption or a sign of a more vigilant press is hard to determine, but it seems obvious that rent seeking is one of the most serious constraints on Zambian economic development.

Among the scandals that are debated one may mention *the pricing of cobalt scandal*. For the two last years that the industry was under state control, the industry is unable to account for 160 million US$ per year in revenue. A government study launched in July 2000 found that during 1998-1999, cobalt had been sold at prices much below world market prices. This seems to be a typical example of asset stripping in the face of privatisation. The Zambian leaders seem to have been bent on seizing the last opportunities to milk the state firms on income for themselves or their party.

Another example is the case of the *2 billion Kwacha from the Ministry of Works, which were diverted to the party coffer*. A tribunal has been set up to investigate the matter. The state owned Zambia National Commercial Bank was used for the transaction. This bank seems to be the vehicle for many dubious transactions. The Bank of Zambia has had to guarantee letters of credit, which the Zambia National Commercial Bank then has failed to service. Eventually this will mean that the taxpayers will be footing the bill.Another example relates to the *payment for maize to a Canadian firm*. Half seems to have been diverted. The biggest state owned company, Zambia National Oil Company, has diverted 61 billion Kwacha. Oil tankers went missing. There is also the Luanshya private mines asset stripping scandal. The

debate on these issues has been lively, but when a money-laundering bill was launched in the Parliament, it was shot down.

The main problem of Zambia has been the delayed privatisation of ZCCM, which by some estimates cost the country 3 billion US dollars compared to if it had been privatised in say 1997. In its latter years, the ZCCM made a daily loss of 1-2 million, and on top of that, it did not pay its suppliers like ZESCO, which meant that the problems spread. There was also extensive asset stripping during the last few years of the existence of the firm, which meant that once the industry was privatised, the Zambian government did not get any money at all for the sale. It rather had to spend money to dispose of it. This should be compared to the sizeable sums that it could have obtained in the early 1990s when copper prices were high, or even in 1997 when the earlier privatisation attempt stalled. Many prospective buyers were in Zambia at the time to try to buy the mines

The copper belt is picking up, but not all mines are doing well. Ndola and Luanshya have large problems. The privatisation of Luanshya is a scandal in its own right. It was sold to an Indian trading group Benani, in spite of the protests of ZPA. The new owners took all the copper out but never put any money back. It did not pay its suppliers either. So although it never really made profits, it did well cash wise, which meant that the new owners could run away with a good return. The firm is now under receivership, but the mine has been flooded and the receiver had failed to pay the insurance, which means that it would be extremely costly to put the firm back in business again. At current prices it is not a viable option to pump the mine dry. This would require a price, which is some 50% higher than the current one for that to be profitable. Six thousand people have become unemployed as a result.

With regard to ZCCM, it seems as if the firm never achieved the international prices on its sales, which suggests that there may have been some scam in place that skimmed off money. It is said by some that the inputs typically cost 25% more than they should have, and that some wares came in through the front door and then went out through the back door. The fact that newly privatised firms have halved costs of production in a year indicates that all was not well under the old regime.

4 A Review of the Trade Liberalisation Process in Zambia During the 1990s

Before reviewing the trade liberalisation process in Zambia, we present a brief overview of the structure of the main trade restrictions that existed. We then outline the major liberalisation steps that have been undertaken. Further to that, we discuss regional trade bodies that Zambia belongs to. These trade bodies strive to liberalise trade between the member countries, although they may retain trade barriers against the rest of the world. A brief discussion of some trade issues between Zambia and its neighbours will be presented in view of the dynamics of liberalisation.

4.1 A Brief Anatomy of Trade Restrictions Prior to Liberalisation

Trade liberalisation generally refers to a process of dismantling policy-related obstacles to trade. In Zambia, these obstacles to trade can be grouped into three categories; exchange controls, tariffs and duties on imports and exports, and quantitative controls. In relation to domestic trade, these barriers were mainly characterised by price controls. We will discuss these in turn.

(a) Exchange controls

In Zambia, like in most other sub-Saharan African countries, the government pursued fixed exchange rate policies in the 1960s and 1970s, and a larger part of the 1980s. However, this was unlike the more conventional fixed exchange rate policies that were pursued in most countries under the Bretton Woods system. In the conventional sense, a fixed exchange rate is maintained through the central bank's intervention in the foreign exchange market by selling and buying foreign exchange at the prescribed rate whenever there is excess supply or demand. In Zambia, however, the government fixed the nominal exchange rate virtually by decree, and resorted to rationing of foreign exchange whenever there was excess demand.

Typically, the fixed exchange rate overstated the real market value of the currency, which means excess demand for foreign exchange was very common. In order to

sustain the fixed rate, the government put down the following regulation; all exporters must sell all their foreign exchange earnings to the central bank at the officially fixed rate. This meant that all exports were implicitly taxed because exporters could have earned more local cash if they were to sell their foreign earnings at a market-determined exchange rate. In this sense therefore, the fixed exchange rate constituted a trade obstacle on account of the implicit tax on exports.

Furthermore, to sustain the decreed exchange rate, the government introduced rationing of foreign exchange to importers. This was administered by issuing import licences, which acted as a permit for applying for the allocation foreign exchange. Through the issuance of import licenses, the government attempted to control the volume and composition of imports. This in itself constituted a barrier to free trade. Further, even after obtaining an import licence, the importer had to deal with a bureaucratic allocation of foreign exchange without certainty of success.

(b) Tariffs and Duties on Imports and Exports

Tariffs and duties are imposed for revenue generation and/or as a disincentive for the importation of certain goods. Whatever that may be, tariffs and duties constitute barriers to international trade.

Prior to liberalisation, Zambia's import tariff structure was such that the rates were high, reaching over 100 percent for some goods. Also, there was a proliferation of bands, which made the system tedious and susceptible to rent-seeking behaviour. Part of the liberalisation process involved reducing the level and number of bands. Export duties also discourage exports because they reduce the profitability of exports.

(c) Quantitative Controls

There are few items such as firearms that cannot be easily imported into Zambia, simply because only few people are allowed to import them in a limited quantity. This constitutes quantitative restrictions to imports. A more general case of quantitative restriction was carried out through the administration of import

licences. Through such licences, the government could control the type and quantity of imports.

(d) Price Controls

For a larger part, the Zambian government instituted controls on prices of several consumption goods deemed to be "essential". Such controls discourage traders within the country. They also discourage the importation of such items into the country.

4.2 A Review of the Liberalisation Process

Musonda and Adams (1999) have documented the trade liberalisation process that took place in Zambia up to 1995. They categorised the major liberalisation episodes as having occurred in two periods, the first being from 1983 to 1987, and the second from 1989 onwards. We will focus on the liberalisation process in the second period.

Trade liberalisation in Zambia, like in many developing countries, has been part of wider structural adjustment reforms that were supported by the World Bank and the IMF. This explains why the liberalisation of trade in Zambia is divided into two periods; the first one relates to the time a wider ranging adjustment package was put in place, whose centrepiece was the auction of foreign exchange. The second period relates to the renewed relationship with the multilateral agencies after Zambia had broken off the relationship to pursue a "growth from own resources" programme, between 1987 and 1989. Table 4.1 presents a summary of the liberalisation policies that were instituted from 1989 to 2000.

Table 4.1: Trade Liberalisation Measures – 1989 to 2000

Policy	Implementation
a. Exchange Controls	-1990 (Feb) – Dual exchange rate system reintroduced. Official window for government and parastatals allocated by FEMAC at a fixed rate; second window at managed but depreciated rate for open general licence imports -1990/91 – Transfer of OGL imports from first to second window -1991 (April) – Dual windows unified, but rate still managed. Direct allocation of government imports -1992 (April) – Export retention allowance increased to 100%, but retention must be sold or used within 180 days -1992 (Sept.) – OGL list switched from positive to negative list -1992 (Oct.) – Bureaux legalised, for current account transfers only -1992 (Dec.) – UGL rate unified with bureau rate -1993 (Oct.) – OGL discount eliminated -1994 (Jan.) – all capital account exchange controls abolished
b. Tariffs and Duties	-1989-93 – Export retention scheme liberalised -1991 (March) – The number of tariff rates reduced to six. Minimum and maximum rates set at 15% and 50% respectively. Exemptions for fertiliser and essential foodstuffs granted, while luxury items are kept at 100% -1992 (March) – Tariff schedule reduced to three rates. Some exemptions are kept for items, which implies exemption from sales tax. Sales tax levied at 23%. A 20% uplift factor applied to imports for computation of sales tax, raising the sales tax to 27.6% -1994 (March) – Duty drawback scheme modified. – PTA/COMESA external tariff reduction agreement ratified. -1995 (July) - Introduction of VAT; Introduction of Import Declaration Fee (IDF) of 5% on the value of the import license. -1996 – Number of tariff rates reduced to four, with minimum and maximum rates set at 0% and 25%. Raw materials, which enjoyed duty free status, continued, while duty on productive machinery for agriculture and mining was reduced from 20% to 0%; duty on other raw materials and productive machinery was reduced from 20% to 5%; duty on intermediate goods was reduced from 30% to 15%, and finally, duty on final products was reduced from 40% to 25%. - COMESA rates were set at 40% of the general tariff rates. - Imports by government and other organisations that are exempted from duty now were to attract duty. - Excise duty on sugar was replaced with VAT. - A minimum duty of K500,000 on imported used cars was to be charged, and specific duty on reconditioned cars of K500 per kilogram was introduced. - A duty of 5% was to be levied on petroleum feedstock. - VAT exemption on copper and cobalt removed. - VAT refund scheme for goods exported by tourists with a value of more than $100 introduced. -1998 – Specific duty rates for imported tyres, sugar, soft drinks, edible oil, beer, batteries and flour introduced as an alternative to ad valorem rates. - Minimum duty for second hand clothes rose from $1.50 to $5 per kilogram. - Exemption of Bank of Zambia and Zambia Publishing House from duty removed. - Minimum duty on second hand cars raised from K500,000 to K1 million. - From July 1st, the Import Declaration Fee was to be abolished, but importers were to fill in the IDF form for pre-shipment inspection.
c. Quantitative Controls	-1989-1992 – Quantitative restrictions removed with liberalisation of OGL. However, restrictions still remain on residual negative list.

Source: Musonda and Adam (1999); GRZ, Various Budget Speeches.

4.3. COMESA and SADC

The Common Market for Eastern and Southern Africa (COMESA), of which Zambia is a member, started in 1984, replacing the Preferential Trade Area, PTA (Murinde, 2000). Currently, COMESA extends from Egypt to Namibia. The main aim of COMESA is to reduce tariffs between member countries. Until 1993, it worked with a common list of products, which were eligible for tariff preferences. This turned out to be cumbersome and unworkable. The members had to agree on the contents of the list every second year. A lot of traded goods were excluded, depending on what products countries felt were sensitive and those goods which they felt their own industry could not competitive.

From 1993, the organisation shifted to a new strategy, where now all goods were eligible. A tariff reduction programme was adopted which implied a 60% preference for members in the initial year and this percentage was then increased by another 10 percentage points every second year, and by the year 2000 it reached 100%. The free trade area was launched on October 31, 2000. This means that as of now, tariffs are supposed to have been eliminated in intra-COMESA trade. Some countries have not fully implemented the agreement as yet. Nine of the member countries have implemented the agreement fully, Zambia being one of them. For the other countries, there is reciprocity; if the other country gives an 80% preference, then Zambia would also give 80% preference. The aim is to have a Customs Union by the end of 2004, with a common external tariff structure. Exactly at what level this is to be is not yet completely clear, but the proposal on the table right now says 5% for inputs, 0% for capital goods, 15% for intermediate goods and 30% on consumer products.

The Southern African Development Community (SADC) was formed in 1992, after replacing the Southern African Development Coordination Conference (SADCC). SADCC wanted to reduce dependence on apartheid South Africa, but following the collapse of the apartheid system in South Africa, the focus has changed into a normal economic cooperation. South Africa is now a member of SADC too. SADC in a way duplicates COMESA, although the membership is not exactly the same. Zambia is a member of both organisations, though.

SADC has agreed on a trade protocol, which has three types of goods. Type A goes to zero tariff immediately while type B does it over an eight-year period until 2008, and Type C goods over a 12-year period until 2012. Zambia started implementing the SADC protocol

from March 2001. Since both the SADC protocol and COMESA free trade area are being implemented, it means that the two systems of tariffs overlap, and it is up to the businessman to chose the most advantageous rates.

4.4 Some Trade Issues

The liberalisation of trade has not been all that smooth. Some countries in the neighbourhood of Zambia have either pulled out or indicated the likelihood of pulling out of COMESA to avoid the reduction of tariffs. Tanzania, for example, has pulled out of COMESA. Regional conflicts also threaten trade between Zambia and her neighbours. In particular, the conflicts in the Democratic Republic of Congo, Rwanda, Burundi, and Angola, and the ongoing political instability in Zimbabwe, undercut the benefits that could have accrued through trade. There have also been some specific bilateral trade disputes or frictions between Zambia and some of her neighbours regarding some specific commodities.

There have been various conflicts with Zimbabwe with regard to trade. Zimbabwe has, for example, demanded that Zambian milk exporters should have text in 3 Zimbabwean languages on the milk packages. This has been the rule in Zimbabwe since 1998, because of demands from the World Health Organisation that there should be a warning text about the risks of breast milk substitutes. In the last year, Zimbabwean producers have finally met the requirements, as have South African producers, but the Zambian ones do not comply. They have been given a temporary reprieve from having the text permanently printed on the packages, but can get along with adhesive stickers. They have as yet not done that. So there is currently no milk exports to Zimbabwe. Other goods that are controversial in trade between Zimbabwe and Zambia are wheat flour and soy cake.[3] Beans imports from Tanzania are another controversial area. The government is reintroducing import licenses which where abolished some four years ago.

[3]A problem with regard to the evaluation of imports from Zimbabwe is that while the official exchange rate is about 55 to the dollar, the parallel rate is in the range of 120-150. Much of the trade is done at the parallel rate. This means that what looks as dumping by the official rate is not dumping at all at the parallel rate.

5 Zambia's Competitiveness

One of the important objectives of trade liberalisation is to bring the relative incentives for local production of commodities more in line with relative world prices (Morrissey, 1995). By so doing, domestic firms that produce commodities for exporting and importing are able to compete on an equal footing with foreign produced goods. In this section, we analyse some of the constraints that exporters and importers in Zambia face that affect their ability to compete with foreign producers. We will discuss issues related to the costs of production, the real exchange rate, tariff and non-tariff barriers, and other factors that affect the competitiveness of Zambian producers.

(i) Costs of Production

There is a debate on costs of production in Zambia, where many argue that costs are higher in Zambia than in neighbouring countries. This is hard to verify, but the review provided by the Zambia Investment Centre on "Zambia's Factor Costs" does not show that they are generally excessive. The manufacturers mostly complain about the high cost of electricity and telecommunication services. The costs of those public utility services are not only high, but also of poor quality and unreliable (Fox and Greenberg, 2001).

If specific costs are too high, this can be dealt with by lowering the rates, if that is feasible given production costs. If the production costs are high, the way to lower prices is to introduce measures that improve efficiency, for example the introduction of new technology or improvements in organisation. If costs in terms of international prices generally are too high for Zambia to be competitive, they have to be brought in line with those of the competitors by currency depreciation. Or firms can try to become more competitive and thereby be able to carry the "excessive" costs. Firms need to focus on producing goods, which can compete with foreign ones in terms of quality. Many Zambian producers are not aware of the quality requirements imposed by markets and governments in overseas markets (Fox and Greenberg, 2001).

(ii) Poor Infrastructure

The state of roads and rail network in Zambia is poor. The poor state of roads and rail services not only impede the smooth transportation of commodities, but also increases the costs in that firms have to incur extra wear and tear costs on vehicles, and often times, they face delays in the delivery of inputs or finished goods. Such costs affect the competitiveness of Zambian firms.

The poor state of the infrastructure in Zambia also prevents accessibility of areas that have potential for generating foreign exchange resources for the country. For example, areas that are fertile for agro-business that could be exploited, and areas that may be of tourist interest (Fox and Greenberg, 2001).

(iii) Tariffs and Non-Tariff Barriers

In order to improve the competitiveness of Zambian exporters, the government has reduced tariffs on raw materials and intermediate goods as part of the trade reforms. Currently, most raw materials are zero-rated, while tariffs for intermediate goods are low.

However, in spite of the changing and improving local tariff structure, Zambian exporters face tariffs in foreign markets. For example, Fox and Greenberg (2001) note that the goods in which Zambia has a comparative advantage such as textiles and sugar, face highly protective tariffs in, for example, the South African market. South Africa has adopted a policy of protecting some of its sectors from liberalisation. This makes it difficult for Zambian firms to export products which have potential to South Africa. (See also other trade issues in section 4.4 in this report).

Zambian products also face non-tariff barriers, which mainly affect agricultural exports. The barriers involved are mostly import permits for Zimbabwe and South African markets. The procedures for securing the import permits are long and cumbersome, and hence making the exporting of products uncompetitive (Fox and Greenberg, 2001).

(iv) Poorly Administered Incentives

Trade reforms are supposed to help exporters to acquire inputs at world prices in order for them to compete. In Zambia, there are some mechanisms that are put in place to help exporters to compete. These mechanisms, unfortunately, are poorly administered. The mechanisms that are or have been in place are as follows;

- Duty drawback scheme – this entitles exporters to a duty drawback on inputs used for export production. The scheme only covers non-traditional exports. The main problems with this scheme are that refunds are paid with long delays, the documentation is time consuming, and it is not well publicised (Ndulo, 2000).
- VAT deferment scheme – this scheme allowed importers to defer the payment of import VAT on eligible imports. This scheme was, however, done away with in 1998 due to widespread abuse by importers (Ndulo, 2000).
- Manufacturing under bond – this scheme allows manufacturers, upon payment of a bond, to defer the payment of customs duty until the product is sold. Ndulo (2000) observes that this scheme has been poorly supervised and is permeated with fraud and abuse, which the ZRA has failed to resolve.

(v) The Real Exchange Rate

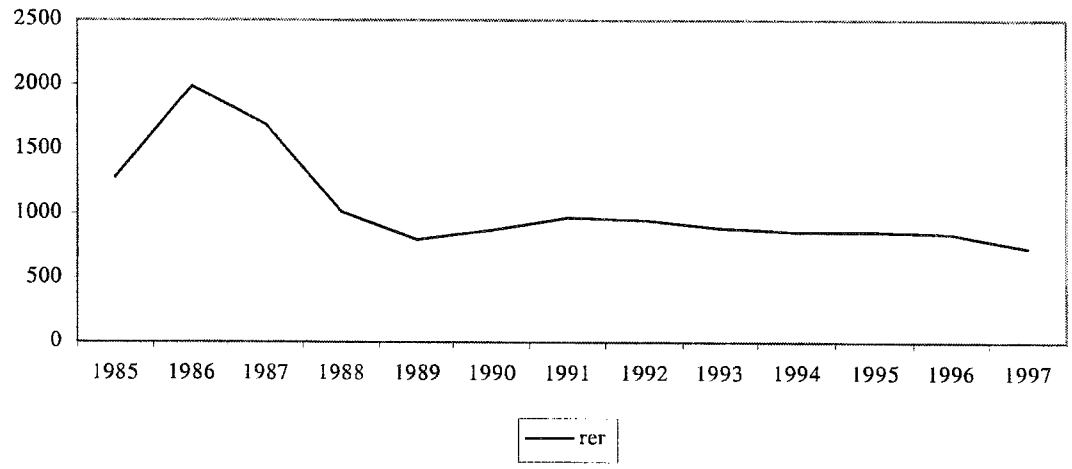
An important index of international competitiveness is the real exchange rate. The real exchange rate is defined in various ways (see Hinkle and Montiel, 1999). Here, we will define it as the ratio of the price of traded goods to non-traded goods, expressed in a domestic currency. A decrease in the real exchange rate indicates an appreciation, while an increase shows a depreciation. When the real exchange rate appreciates, it means that the domestic cost of producing tradable goods increases. If no changes occur in the relative prices in the rest of the world, it then means that an appreciation in the real exchange rate deteriorates a country's international competitiveness, while a depreciation improves a country's competitiveness. This definition of the real exchange rate also summaries the incentives that guide resource allocation between tradable and non-tradable sectors; a depreciation would make the production of tradables more profitable and hence directing resources to move out of the non-tradable sector to the tradable sector. An appreciation in the real exchange rate has the opposite effect of making the production of non-tradables more profitable and moving resources out of the tradable sector (Edwards, 1989).

The definition that we will employ for the real exchange rate is not easy to operationalise because it is difficult to find the prices of tradable and non-tradable goods. Proxies are thus used; the consumer price index (CPI) is often used in the literature to capture non-traded goods, while traded goods are captured by the foreign wholesale price index (WPI). In order to deal with other conceptual issues involved in calculating the real exchange rate, a number of real exchange rate indices are often recommended to be calculated (Hinkle and Montiel, 1999; Mkenda, 2001). For now, we shall only calculate a single index. The real exchange rate index was calculated as follows;

$$RER \equiv e \equiv E\frac{P_T^*}{P_N}$$

where, P_T^* is the world price for traded goods, which we proxied by the wholesale price index for the US. P_N is the (domestic) price of non-traded goods, and it was proxied by the consumer price index for Zambia. E is the nominal exchange rate, and we used the period average rate of the Kwacha per US dollar. Figure 7.1 shows the evolution of the real exchange rate index for the period 1985 to 1997.

Figure 5.1: Evolution of the Real Exchange Rate



The real exchange rate shows a depreciation from 1985 to 1986. This is the period when the auction system was in place. The auctioning system was abandoned in 1987. Thereafter, the real exchange rate appreciated up to 1989, then slightly depreciated. In the second half of the 1990s, the real exchange rate appreciated slightly. An appreciation in the real exchange rate does not augur well for expansion of exports. This is because it discourages exports as the exporters get less returns for their products. An appreciation in the real exchange also encourages imports instead of domestic production. It is therefore important to have a stable real exchange rate and one that is sufficiently devalued to encourage exports. However, we note that compared to the 1980s, the second half of the 1990s shows less fluctuation in the real exchange rate. This might be due to the fact that the nominal exchange rate became market determined as opposed to the earlier fixed and control regime.

To conclude this section therefore, it is important for Zambia's competitiveness that costs that producers face are not too excessive compared to others in the region. An improvement in the infrastructure is also key, as well as increasing efficiency in the administration of mechanisms for exporters. It is encouraging that tariffs are being lowered, while we suggest that the issue of non-trade barriers faced by Zambian producers be addressed at regional bodies.

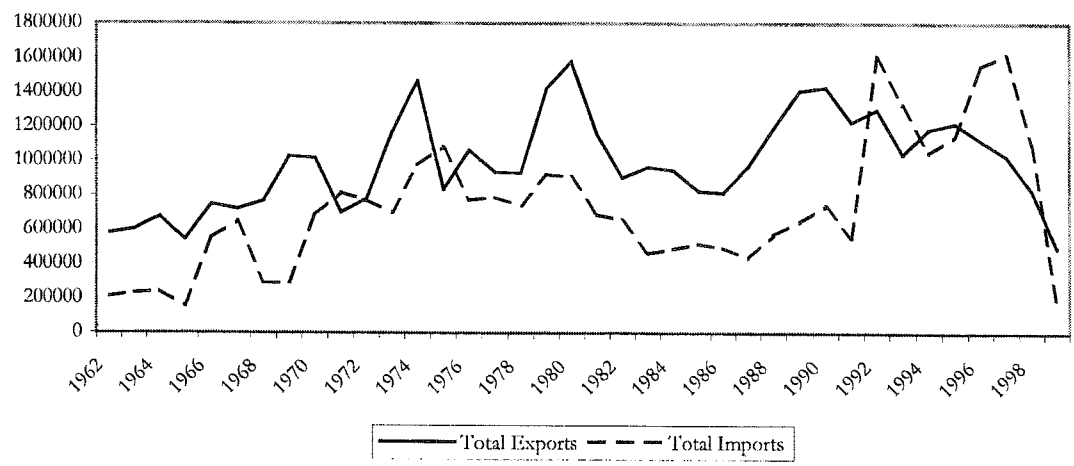
6 Changes in Zambia's Trade Structure

An examination of the structure of Zambia's trade over time helps to see the way that trade reforms have influenced the structure and trend of exports and imports. In this section, we look at the evolution of total trade from the 1960s to the 1990s. We also look at the direction of Zambia's trade; that is, how Zambia's trade with African countries versus the rest of the world has evolved over time. Furthermore, we examine the sectoral composition of Zambia's trade. Theoretically, trade liberalisation is supposed to increase incentives to exporters so that they can increase the production of exportables. We thus examine what effect trade liberalisation measures have had on Zambian exports, and the extent to which the measures have helped in diversifying exports away from a reliance on primary products.

6.1 *Evolution of Total Trade*

The trend of Zambia's total exports and imports, though fluctuating, has been increasing from the 1960s up to 1980. Thereafter, a decrease is observed until reform efforts in the late 1980s reverse the trend. In the later part of the 1990s, the trend is down, however, mainly driven by lower copper incomes. Figure 6.1 plots the evolution of total exports and imports between 1962 and 1999, while Figure 6.2 shows the evolution of total trade in the 1990s.

Figure 6.1: Evolution of Total Trade, 1962-1999 ('000 US$)



In the 1990s exports shows a general downward trend, while imports show fluctuations, and a downward trend in the late 1990s. The downward trend in total exports reflects a general downward trend in Zambia's main export commodity, copper. Given the general fall in exports, it is thus not surprising that imports have been falling too; the capacity to import normally decreases with a fall in foreign earnings from exports.

Figure 6.2: Evolution of Total Trade in the 1990s ('000 US$)

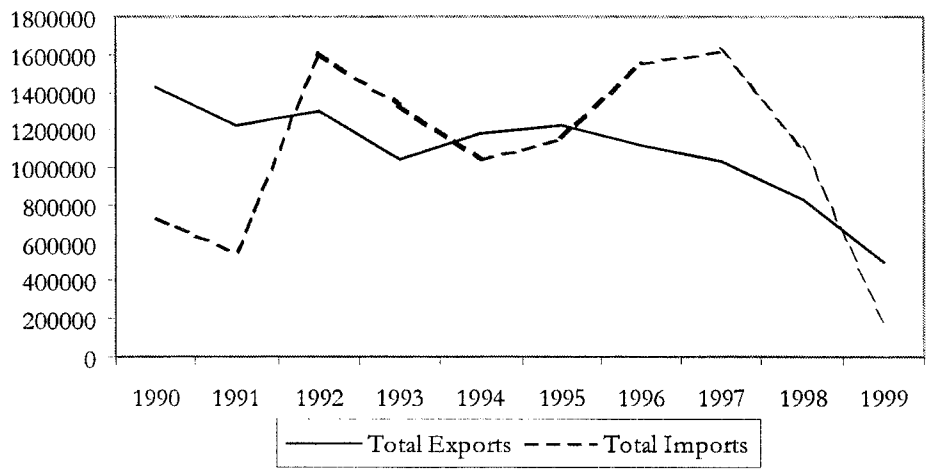
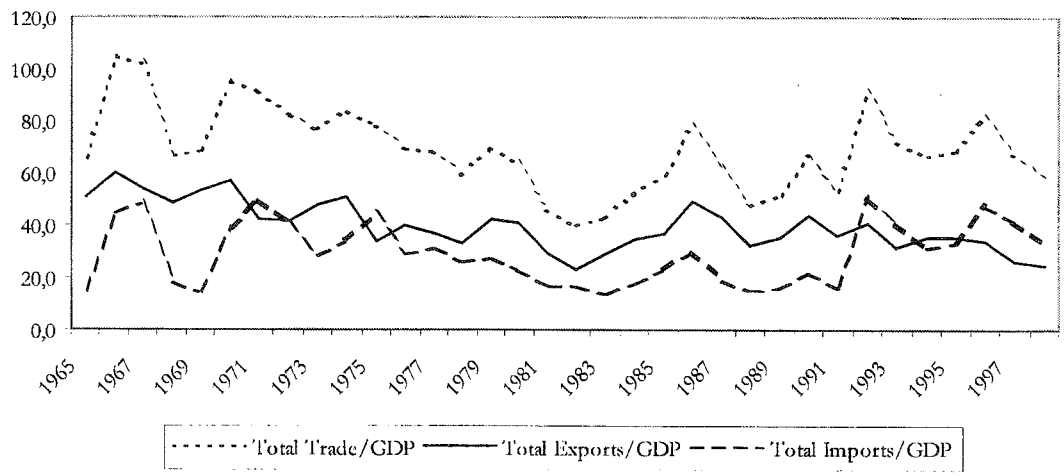


Figure 6.3 plots three indices of openness for the period between 1965 and 1998. These are outcome based indices and thus do not measure how open the trade regime is. This has obviously become much more open during the last decade as shown above. As a percentage of GDP, total exports and imports show a decreasing trend from the 1960s up to the early 1980s. Thereafter, exports as a percentage of GDP show a slight increase, and then a steady declining trend throughout the 1990s. Once again, the declining trend of exports as a percentage of GDP in the 1990s can be explained by the decrease in copper exports. Imports as a percentage of GDP show a steady trend and a slight increase in the 1990s. Overall, we can say that liberalisation measures in the 1990s seem to have increased openness measured as imports as a percentage of GDP, but in aggregate exports have not increased. It should be noted, as we will show below, that this result is driven by the decline in copper exports. Non-copper exports have expanded rapidly during later years.

Figure 6.3: Evolution of Openness, 1965-1998



6.2 *Direction of Trade*

In this sub-section, we look at the extent to which Zambia trades with the rest of Africa versus the rest of the world. Like most African countries, Zambia's trade with the rest of Africa is small compared to trade with the rest of the world. Between 1962 and 1999, on average, exports from Zambia to the rest of Africa constituted about 4 percent of total exports, while imports from the rest of Africa averaged approximately 14 percent of total imports over the same period. Notable is the declining trend in the value of trade in the second half of the 1990s (see Figure 6.4).

Figure 6.4: Direction of Trade, 1962-1999

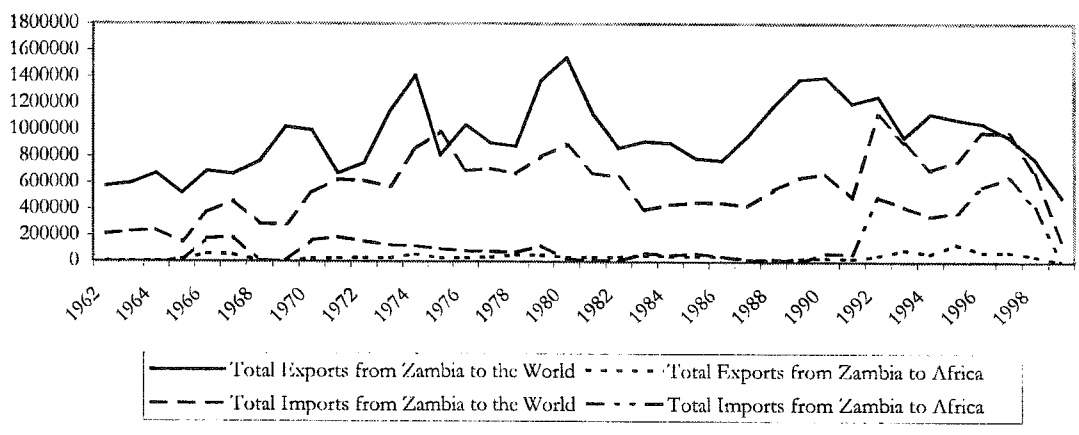


Table 6.1 shows Zambia's average percentage of trade with African countries in different sub-periods between 1962 and 1999. For both exports and imports, the average percentages show that Zambia's trade with the rest of Africa has increased slightly in the 1990s. While exports to Africa in the 1970s and 1980s were only 3 percent of total exports, the percentage increased marginally to 5 percent in the 1990s. Imports, on the other hand, increased more, averaging 26.5 percent in the 1990s compared to 6 percent in the 1980 to 1990 period. Figure 6.5 further highlights the direction of trade in the 1990s. A general downward trend in the late 1990s is seen in the value of total trade between Zambia and her partners.

Table 6.1: Zambia's Trade with African Countries - Average Percentage, 1962-99

	Exports	Imports
1962-70	2.59	10.09
1970-80	3.27	13.82
1980-90	3.26	6.11
1990-99	5.38	26.45

Source: Authors' calculation from UNIDO data.

Figure 6.5: Direction of Trade in the 1990s

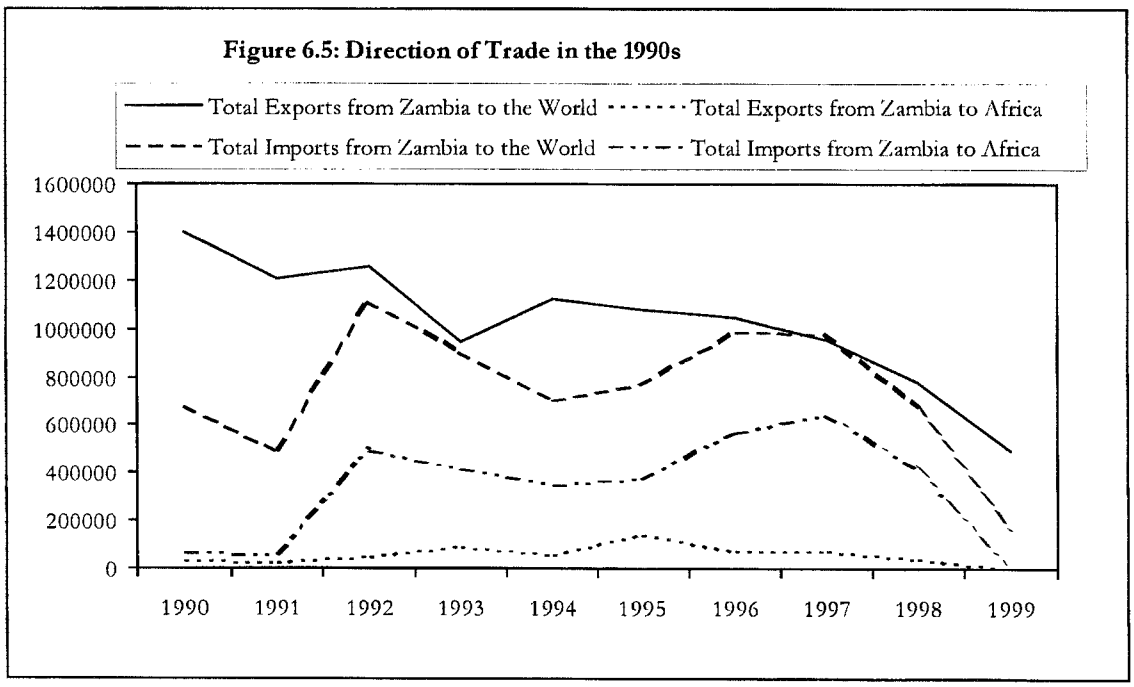


Table 6.2 provides both monetary values and percentages of Zambia's trade with African countries for the 1990s. Overall, in terms of monetary value, imports from Africa are higher than exports from Zambia to the rest of Africa. In terms of percentage, imports from Africa show a steady increase from 1992 to 1998, before falling and accounting for a mere 1.6 percent. The percentage of exports from Zambia to Africa shows fluctuations in the 1990s with a peak in 1995.

Table 6.2: Zambia's Trade with African Countries, 1990-99

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total Exports from Zambia to Africa (US$1000)	30801	24867	46940	94287	62493	140027	73031	77316	45388	3390
Total Imports from Africa to Zambia (US$1000)	65147	61318	494059	421348	348637	378520	571876	642633	419274	2703
Exports to Africa as % of Total Exports	2.2	2.0	3.6	9.1	5.3	11.5	6.5	7.5	5.5	0.7
Imports from Africa as % of Total Imports	8.8	11.1	30.7	31.7	33.2	33.0	36.7	39.6	38.1	1.6

Source: Authors' calculation from UNIDO data.

6.3 The Structure of Trade by Sector

In order to get a better insight into the structure of trade, we now examine disaggregated data at single digit level. Table 6.3 shows that Zambia's exports to the world are dominated by sector 6, which includes copper. This has remained so since the 1960s, although the average percentage contribution peaked in the period 1970-80. Exports to the rest of Africa are also dominated by sector 6, although not to the same extent as trade with the world. The highest percentage contribution of sector 6 was attained in the 1962-70 period. Thereafter, its average percentage contribution has been declining. In the period 1980-90, sector 3, which includes mineral fuels, became second to sector 6 in terms of importance. The other sector whose average percentage contribution has been above 10 percent throughout the sample period is sector 0, which covers agricultural exports. The percentage contribution of sector 1, beverages and tobacco, has been declining over time, while sectors 3 and 7 (machinery) have registered gains in their average contributions. Thus, compared with exports to the rest of the world, Zambia's exports by sector within Africa are more diversified. Table 6.4 gives the structure of exports for the 1990s in dollar terms.

On the import side, Zambia's imports from the world are dominated by sector 8, followed by sectors 7 and 6, that is, various manufactured goods (see Table 6.5 and Table 6.6). Within

Africa, imports are dominated by several sectors in the 1990s, namely sectors 8, 7, 6, 1, and 0, that is agricultural goodsbut also a range of agricultural products such as food, livestock, beverages, and tobacco.

Table 6.3: Evolution of Exports by Sector (average percentage) at Single Digit, 1962-99

Exports from Zambia to the World				
SITC	1962-1970	1970-1980	1980-1990	1990-1999
0 Food and live animals	2.45	0.39	0.89	2.22
1 Beverages and tobacco	6.66	0.72	1.86	0.91
2 Crude materials, inedible, except fuels	3.90	1.39	1.63	3.58
3 Mineral fuels, lubricants and related materials	0.07	0.40	0.93	0.79
4 Animal and vegetable oils and fats	0.75	0.30	0.11	0.22
5 Chemicals	0.31	0.18	0.42	0.92
6 Manufactured goods classified chiefly by material*	84.73	96.37	93.09	89.11
7 Machinery and transport equipment	0.83	0.22	0.75	1.41
8 Miscellaneous manufactured articles	0.15	0.03	0.10	0.28
9 Commodities & transactions not classified to kind	0.16	0.01	0.21	0.55
Exports from Zambia to Africa				
0 Food and live animals	10.45	10.80	13.03	11.68
1 Beverages and tobacco	15.65	12.47	10.89	3.24
2 Crude materials, inedible, except fuels	5.81	5.55	3.89	18.18
3 Mineral fuels, lubricants and related materials	1.82	11.27	29.59	12.80
4 Animal and vegetable oils and fats	6.09	8.90	2.95	3.57
5 Chemicals	0.63	4.17	1.96	2.97
6 Manufactured goods classified chiefly by material*	56.29	45.10	34.60	33.94
7 Machinery and transport equipment	2.00	1.06	2.43	11.44
8 Miscellaneous manufactured articles	1.04	0.43	0.30	1.83
9 Commodities & transactions not classified to kind	0.21	0.24	0.35	0.35

Source: Authors' calculation from UNIDO data.

*Includes copper.

Table 6.4: Evolution of Exports by Sector (US$ '000), 1990-99

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Exports from Zambia to the World										
0 Food and live animals	10688	9486	15824	24442	16497	25376	22677	48316	37660	17615
1 Beverages and tobacco	11177	9812	11690	8032	8173	2109	10009	13259	10790	8952
2 Crude materials, inedible, except fuels	12648	11969	27602	12104	19497	17598	35166	79684	79545	72326
3 Mineral fuels, lubricants and related materials	3563	2639	2504	15754	948	34547	19803	1156	254	410
4 Animal and vegetable oils and fats	476	144	632	6389	9364	3853	869	659	141	2
5 Chemicals	8314	14295	5923	7037	7631	4196	13055	11892	12669	9344
6 Manufactured goods classified chiefly by material*	1338657	1134299	1174336	859381	1024165	973334	927829	766195	593237	371637
7 Machinery and transport equipment	8459	16877	9062	8077	9852	16804	16875	23974	22906	11695
8 Miscellaneous manufactured articles	2335	1764	4853	3622	2583	2308	1945	4264	4283	1059
9 Commodities & transactions not classified to kind	3343	1535	1584	98	24574	240	1591	1459	21092	1031
Exports from Zambia to Africa										
0 Food and live animals	576	1018	8474	20745	10225	18735	3636	5226	1243	41
1 Beverages and tobacco	2356	2495	363	7911	300	2080	2306	1091	325	148
2 Crude materials, inedible, except fuels	1595	1573	10831	4250	12621	8030	14523	33151	22125	97
3 Mineral fuels, lubricants and related materials	3319	2469	2266	13491	605	34373	19394	715	3	0
4 Animal and vegetable oils and fats	177	84	506	6235	9296	3785	842	423	37	2
5 Chemicals	1244	1021	1435	2119	4796	2067	2916	1628	444	97
6 Manufactured goods classified chiefly by material*	18154	13228	18017	30798	18192	55752	15559	18747	13276	1436
7 Machinery and transport equipment	2939	2579	3072	6441	5044	14242	12071	14132	6545	1382
8 Miscellaneous manufactured articles	147	134	1766	2231	1211	866	1327	1816	1273	165
9 Commodities & transactions not classified to kind	294	266	210	66	203	97	457	387	117	22

Source: Authors' calculation from UNIDO data.

*Includes copper.

Table 6.5: Evolution of Imports by Sector (average percentage) at Single Digit, 1962-99

Imports from the World to Zambia				
SITC	1962-1970	1970-1980	1980-1990	1990-1999
0 Food and live animals	6.68	6.47	4.39	7.16
1 Beverages and tobacco	6.68	6.47	4.39	7.16
2 Crude materials. inedible. Except fuels	1.46	0.88	0.38	0.83
3 Mineral fuels. lubricants and related materials	3.09	2.37	1.36	3.74
4 Animal and vegetable oils and fats	5.37	11.65	6.20	2.05
5 Chemicals	3.46	4.08	4.12	5.41
6 Manufactured goods classified chiefly by material*	7.17	10.22	12.47	12.53
7 Machinery and transport equipment	21.84	19.04	12.94	14.75
8 Miscellaneous manufactured articles	36.30	33.50	48.92	38.69
9 Commodities & transactions not classified to kind	7.95	5.32	4.84	7.68
Imports from Africa to Zambia				
0 Food and live animals	10.72	13.27	13.90	10.04
1 Beverages and tobacco	10.72	13.27	13.90	10.04
2 Crude materials. inedible. Except fuels	3.53	3.22	0.64	1.23
3 Mineral fuels. lubricants and related materials	1.95	3.26	1.89	5.96
4 Animal and vegetable oils and fats	17.07	10.55	15.65	1.91
5 Chemicals	1.98	4.50	12.04	6.52
6 Manufactured goods classified chiefly by material*	9.32	14.62	13.88	16.08
7 Machinery and transport equipment	21.58	16.70	17.59	18.09
8 Miscellaneous manufactured articles	16.73	16.86	8.11	23.94
9 Commodities & transactions not classified to kind	6.40	3.75	2.39	6.20

Source: Authors' calculation from UNIDO data.

*Includes copper.

Table 6.6: Evolution of Imports by Sector (US$'000), 1990-99

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Imports to Zambia from the World										
0 Food and live animals	8630	12640	135748	90231.5	44715	61606	77099	81890	52000	2568
1 Beverages and tobacco	6097	3030	10877	10294.5	9712	3038	5998	8583	7248	805
2 Crude materials, inedible, except fuels	7985	7032	67824	47199	26574	32163	44488	39765	16443	6281
3 Mineral fuels, lubricants and related materials	4065	4052	4360	4696	5032	93847	26336	16072	3311	185
4 Animal and vegetable oils and fats	10018	11228	122303	73025.5	23748	50548	50546	41445	43359	2215
5 Chemicals	77321	55880	157261	120473.5	83686	96733	133331	151370	100738	15002
6 Manufactured goods classified chiefly by material*	92888	86867	159728	140651	121574	105348	162329	177924	102826	17235
7 Machinery and transport equipment	419087	264368	384935	340511	296087	269040	373895	352732	270644	92201
8 Miscellaneous manufactured articles	39221	39599	56302	67656	79010	51131	92344	85529	73042	24466
9 Commodities & transactions not classified to kind	9438	6240	17795	14030.5	10266	6348	17935	24736	11136	4597
Imports to Zambia from Africa										
0 Food and live animals	4338	8602	51823	44946.5	38070	47809	59220	73491	46121	135
1 Beverages and tobacco	1157	353	8212	8141	8070	2398	4752	6764	6160	9
2 Crude materials, inedible, except fuels	2500	2646	60464	38570.5	16677	21352	38009	31235	11100	11
3 Mineral fuels, lubricants and related materials	2050	1283	3341	3631	3921	13337	26108	14718	2916	51
4 Animal and vegetable oils and fats	4982	8736	38989	28328	17667	35978	33852	36257	38480	25
5 Chemicals	9769	7762	91036	73486	55936	63402	104992	113115	79458	977
6 Manufactured goods classified chiefly by material*	21677	20063	91655	83685	75715	72697	110797	125904	72135	605
7 Machinery and transport equipment	15194	8227	121519	111143	100767	93975	142386	173009	127079	57
8 Miscellaneous manufactured articles	2603	2386	22413	25027.5	27642	22674	43756	52459	31688	753
9 Commodities & transactions not classified to kind	877	1260	4607	4389.5	4172	4898	8004	15681	4137	80

Source: Authors' calculation from UNIDO data.

**Includes copper.*

It might be misleading to think that Zambia's exports are dominated by sector 6 (manufactures) if one considers exports at one-digit level. In order to look closely at what constitutes Zambia's main exports, we further disaggregated exports in sector 6 at the two-digit level (see Table 6.7 and Table 6.8). The picture that emerged tells a more convincing story; Zambia's exports, as it should be, are dominated by sub-sector 68 (non-ferrous metals), with the average percentage contribution within sector 6 in the 1970-80 period being almost 100 percent for exports to the world. While the contribution of non-ferrous metals has remained above 90 percent within sector 6 for exports to the world, this has not been the case for exports to Africa. In the 1990s, the contribution of non-ferrous metals to exports in sector 6 was almost halved, compared to the 1960-1970 period. Zambia has also managed to diversify into manufacturing exports, at least within the region. However, there has been an increase in exports to the rest of the world of for example textiles, leather products, and non-metallic minerals.

Table 6.7: Evolution of Exports of Sector Six at Two Digit level (Average Percentage), 1962-99

Exports from Zambia to the World				
SITC	1962-1970	1970-1980	1980-1990	1990-1999
61 Leather manufactures, n.e.s; dressed fur skins	0.30	0.03	0.36	1.03
62 Rubber manufactures, n.e.s.	0.01	0.02	0.01	0.04
63 Wood and cork manufactures (excluding furniture)	0.03	0.00	0.01	0.04
64 Paper, paperboard and manufactures thereof	0.01	0.00	0.01	0.03
65 Textiles, yarn, fabric, made-up articles, related products	0.01	0.01	0.28	2.67
66 Non-metallic mineral manufactures, n.e.s.	0.19	0.38	1.84	1.83
67 Iron and steel	0.68	0.00	0.72	0.23
68 Non-ferrous metals	98.76	99.50	96.77	94.04
69 Manufactures of metal, n.e.s.	0.02	0.06	0.02	0.09
Exports from Zambia to Africa				
61 Leather manufactures, n.e.s; dressed fur skins	0.07	0.51	25.51	19.14
62 Rubber manufactures, n.e.s.	0.20	1.00	0.41	1.55
63 Wood and cork manufactures (excluding furniture)	0.42	0.08	0.17	1.02
64 Paper, paperboard and manufactures thereof	0.10	0.08	0.13	1.32
65 Textiles, yarn, fabric, made-up articles, related products	0.54	0.69	1.14	5.79
66 Non-metallic mineral manufactures, n.e.s.	0.65	9.12	18.48	15.62
67 Iron and steel	1.10	0.27	2.86	3.17
68 Non-ferrous metals	96.43	85.56	50.43	49.07
69 Manufactures of metal, n.e.s.	0.49	2.69	0.87	3.34

Source: Authors' calculation from UNIDO data.

*Includes copper

Table 6.8: Evolution of Exports of Sector Six at Two Digit Level (US$' 000), 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Zambia's exports of sector 6 to the world										
61 Leather manufactures, n.e.s; dressed fur skins	1336	1148	7398	13693	2095	18495	9518	26991	13090	464
62 Rubber manufactures, n.e.s.	217	157	101	53	382	1758	419	426	66	120
63 Wood and cork manufactures (excluding furniture)	236	209	177	289	227	542	617	674	233	63
64 Paper, paperboard and manufactures thereof	50	43	110	528	551	250	856	381	94	18
65 Textiles, yarn, fabric, made-up articles, related products	9975	9180	11925	10608	23800	34627	36820	44525	37470	25697
66 Non-metallic mineral manufactures, n.e.s.	31366	23679	16237	17459	19945	12617	13149	18507	9976	4521
67 Iron and steel	761	2140	2078	349	144	359	1220	3425	8789	1831
68 Non-ferrous metals	1294055	1097643	1135878	816096	976829	902051	864586	669511	521611	338863
69 Manufactures of metal, n.e.s.	659	99	430	305	192	2635	645	1756	1908	60
Zambia's exports of sector 6 to Africa										
61 Leather manufactures, n.e.s; dressed fur skins	352	598	6961	13269	938	14093	1264	1265	139	0
62 Rubber manufactures, n.e.s.	163	120	28	50	299	1708	322	423	31	1
63 Wood and cork manufactures (excluding furniture)	169	154	124	142	184	170	510	529	82	0
64 Paper, paperboard and manufactures thereof	50	43	110	515	551	192	856	330	20	7
65 Textiles, yarn, fabric, made-up articles, related products	332	254	1123	1115	2115	4901	836	967	123	6
66 Non-metallic mineral manufactures, n.e.s.	4905	4888	964	6763	2530	7142	2370	1953	205	4
67 Iron and steel	643	474	1228	59	19	345	1128	1693	809	35
68 Non-ferrous metals	11156	6613	7287	8696	11416	24679	7683	9866	10909	1380
69 Manufactures of metal, n.e.s.	384	84	191	189	140	2520	590	1722	959	2

Source: Authors' calculation from UNIDO data.

*Includes copper.

6.4 Trade Liberalisation and Structural Change

Theoretically, trade liberalisation is supposed to increase incentives for producing exports so that resources are relocated from the rest of the economy to the production of exportables. The trade reforms that the Zambian government has been putting in place since 1991 are also meant to restructure the economy away from its dependence on copper, that is, to diversify the export base. In this section, we look at the effect of trade liberalisation measures on the composition of Zambia's exports. The question that needs to be answered therefore is whether the measures have helped in diversifying exports, and whether non-traditional exports have responded to the liberalisation measures in the 1990s. We have seen, in the previous section, that Zambia's exports are still, by and large, dominated by mineral exports, although their share in the 1990s has been falling, due mainly to the decrease in the volume of copper exports. How have non-traditional exports fared in the 1990s?

Table 6.9 gives the earnings of non-traditional exports by sector for the period between 1990 and 2000. NTE earnings grew by 14% per year between 1990 and 1999 and their contribution to exports increased from under 10% to 39%. This indicates a fairly rapid response to trade liberalisation measures. In 1998 and 1999, there was a slight decline in NTEs, though. Traditional exports declined even more.

Table 6.9 also gives the average percentage contribution of NTEs by sector for two sub-periods; 1990-1995 and 1995-1999. The average percentage contribution of all sectors increased from the first sub-period to the second one, with primary agricultural products showing the highest percentage increase from the first to the second sub-period. The other sectors, which followed, are; engineering products, textiles, processed and refined foods, floriculture, and semi-precious stones.

In 1999, the top four sectors that contributed the highest percentage of earnings to non-traditional exports are; primary agricultural goods, floricultural products, textiles, and processed foods. Compared to the early 1990s, primary agricultural products ranked second in their percentage contribution to non-traditional export earnings, while engineering product ranked first. It appears therefore that in the latter part of the 1990s, agricultural-based products contributed the most to non-traditional export .

Table 6.9: Non-traditional export earnings by Sector 1990-1999 (US$ '000)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average % contribution, 1990-95	Average % contribution, 1995-99
Animal products	2291	1185	456	740	355	1404	1719	3413	4150	4374	1.41	2.22
Building materials	3597	3699	3838	3695	3048	6220	7943	12001	8582	7044	5.02	8.03
Chemical products	3090	2552	1967	1006	2249	2447	3058	7816	8895	5942	3.00	4.73
Engineering products	19622	27792	24829	31281	34546	39402	36537	42420	31672	23212	30.16	47.06
Floricultural products	1050	1902	2987	5506	9110	13534	18299	21242	32855	42677	11.16	19.14
Garments	2514	2566	1360	688	501	402	239	248	371	328	0.95	1.14
Handicrafts	187	95	64	80	85	83	218	96	163	208	0.10	0.16
Horticultural products	4544	5807	2934	2391	2421	4023	8859	15859	20557	23871	6.71	10.55
Leather products	1039	675	375	1235	1235	1944	2094	7321	3134	2000	1.58	2.63
Non-metallic minerals	1713	1824	1548	1361	821	704	673	541	532	982	1.13	1.60
Other manufactures	1086	907	389	30	28	530	1475	3021	3090	6500	1.13	1.80
Petroleum oils	11144	3742	1081	178	3917	11360	5695	1808	6813	6412	3.85	5.96
Primary agricultural products	14542	22761	19968	25072	10008	24080	37853	90918	62244	72501	30.43	48.57
Processed & refined food	6196	4758	14177	15117	22193	25207	33835	30851	49407	33035	20.00	34.03
Semi-precious stones	7638	10189	9947	13301	9437	7540	10894	14544	11584	13836	10.50	16.28
Textiles	8586	9380	13670	11062	28461	39146	40450	50639	42369	36997	23.59	39.35
Wood products	791	520	647	550	893	1418	1843	3376	3192	3044	1.23	2.05
Re-exports	0	0	0	0	0	0	4091	3882	3656	2685	0.90	1.58
Scrap metal	0	0	0	0	0	0	10729	6019	4210	6120	1.76	3.08
Mining Equipment	367	75	75	20	52	90	0	3747	12232	3337	1.17	2.04
Electricity	12205	20893	1658	10756	19552	21100	16152	14813	5627	6127	12.51	17.59
Total NTE	102202	121322	101970	124091	138860	199284	242555	329488	313388	304496		

Source: EBZ Exporter Audit 1999, p. 21.; Ministry of Finance and Economic Development, Macroeconomic Indicators, May 2001.
Note: *Preliminary.

earnings. This indicates that Zambia's comparative advantage lies in the agricultural sector.

The most important market for Zambia's NTEs was South Africa, which purchased goods for US$64.8 million in 1999, followed by the Netherlands at 40.6 million. Table 6.10 shows the market breakdown in terms of regions for Zambia's NTEs for 1997 to 1999. It shows that in 1997, the most important destination for Zambia's NTEs was the EU market, followed by the COMESA market. However, in 1999, this changed, with the COMESA market coming third after the EU and "others". With the implementation of the COMESA free trade area, the signing of the SADC protocol on trade, the continuation of the EU preferences under the Cotonou Agreement, and the expansion of the US market through the Africa Growth and Opportunity Act (AGOA), Zambia's access to export markets is likely to be extended (Fox and Greenberg, 2001). It is thus hoped that Zambia will benefit from increased export earnings from trade as a result of more access to export markets.

Table 6.10: Market Breakdown for NTEs 1997-1999

Region	1997	1998	1999
COMESA	106.155	86.460	81.841
EU	116.190	106.397	117.359
Asia	31.677	27.938	10.278
Others	75.465	92.592	95.018
Total	329.488	313.387	304.496

Source: EBZ, 2000, p. 38.

Initially, we discussed a three-factor model with labour, capital and natural resources. It seems natural to argue that Zambia is a natural resource abundant country, and that it therefore primarily would have comparative advantages in natural resource based production. The sectors one would be competitive in are thus mining and agriculture. There has been a presumption that African economies would have a comparative advantage in labour intensive manufacturing, but in a resource abundant country, this is not at all clear. It is also the case that even the export of labour intensive manufactures typically requires fairly skilled labour that may either be unavailable or expensive due to market distortions. Zambia has managed to penetrate a little into the manufacturing export market as one would assume when the import substitution structures have been dismantled. This is promising, but for this expansion to continue and to become of a significant magnitude, the country needs to be aware of the need

to have internationally competitive labour costs (and other costs of course). So far, this has been hard to achieve because of the impact of the government-mining complex on, for example, skilled wages.

7 Tariff Reductions and Government Incomes

Trade reforms in the form of tariff reductions can impact on government incomes. Generally, most governments in developing countries rely on taxes on trade to fund their activities. However, with the liberalisation of trade, which entails a reduction in the level of tariffs, the incomes from tariffs that the governments rely on would no longer be available. As such, governments have to find other ways to fund their activities.

In this section, we examine the structure of the Zambian government's income. The main objective is to see the extent to which the government has been dependent on trade taxes to fund its activities. It has been noted in the literature that the extent to which governments would be willing to implement liberalisation measures is related to the expected fiscal effect and extent of opposition, which can both be proxied by tax dependence (Morrissey, 1995). When the MMD regime took over the reigns of power from the Kaunda government in 1991, they increased the pace of trade reforms. We hope to see the extent to which tariff reductions have been influenced by the government's dependence on tariff revenue.

Table 10.1 and Table 10.2 show the structure of government income in percentages and values respectively. Table 10.1 shows that between 1990 and 1999, revenue from taxes as a percentage of total government revenue averaged 91 percent, although between 1993 and 1995, it was below 90 percent. At the beginning of the 1990s, taxes from domestic goods and services contributed over 30 percent to tax revenues, rising to 41 percent in 1992. However, between 1993 and 1995, it fell to under 30 percent, before rising to above 50 percent in the next two years. Then in 1998 and 1999, domestic taxes contributed 45 and 48 percent to tax revenue respectively.

The percentage contribution of trade taxes to tax revenue at the beginning of the 1990s is about the same as towards the end of the period, constituting about 18 percent of tax revenue. The highest percentage contribution of trade taxes was in the period between 1993 and 1995. This period coincides with the period when the contribution of domestic

Table 10.1: Structure of Government Income, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Tax Revenue as % of Total Revenue	94.4	92.1	93.9	83.7	83.9	85.9	92.8	94.9	97.2	96.4
Tax on Income, Profits, Capital Gains as % of Tax Revenue	42.1	35.3	41.5	33.9	31.3	31.4	34.7	33.6	37.1	34.7
Social Security Contributions as % of Tax Revenue	0	0	0	0	0	0	0	0	0	0
Taxes on Payroll or Work Force as % of Tax Revenue	0	0	0.1	0.1	0	0	0	0	0	0
Taxes on Property as % of Tax Revenue	0	0.3	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.2
Domestic Taxes on Goods and Services as % of Tax Revenue	39.8	32.2	40.9	24.7	29.8	26.4	52.3	52.7	45.4	48.1
Taxes - International Trade as % of Tax Revenue	18.1	31.9	17.4	41.2	38.7	42.0	12.9	13.6	17.3	17.1
Other Taxes as % of Tax Revenue	0	0	0	0	0	0	0	0	0	0

Source: Authors' own calculation from IMF, Government Finance Statistical Yearbook, various issues.

Table 10.2: Structure of Government Income in Billions of Zambian Kwacha, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total Revenue	23.4	41.5	113.5	266.4	502.8	600.8	754.3	957	1097.6	1430.4
Tax Revenue	22.1	38.2	106.6	222.9	421.9	516.1	699.8	907.9	1066.4	1378.3
Tax on Income, Profits, Capital Gains	9.3	13.5	44.2	75.6	132	162.2	242.7	305.1	395.8	477.7
Social Security Contributions										
Taxes on Payroll or Work Force			0.1	0.1						
Taxes on Property		0.1	0.2	0.4	0.6	0.9	1.4	0.6	2.1	2.3
Domestic Taxes on Goods and Services	8.8	12.3	43.6	55	125.9	136.1	365.7	478.5	484.6	662.3
Taxes - International Trade*	4	12.2	18.5	91.8	163.4	216.9	90	123.7	183.9	236
Other Taxes										

Note: *Mostly import duties.
Source: IMF, Government Finance Statistical Yearbook, various issues.

taxes to tax revenue was at its lowest. It appears therefore that taxes from international trade made up for the fall in the contribution of domestic taxes.

In 2000, international trade taxes constituted 30.6 percent of total domestic revenue, while domestic taxes on goods and services was 26.1 percent (Economic Report 2000, p.22). Trade taxes thus still contribute very significantly to government revenue, and with the large increase of imports in 2000, tariff revenue actually increased. This was, among other things, due to improvements in the collection and the depreciation of the Kwacha which increased the Kwacha price of imports.

From the data presented in Table 10.1, it appears that trade liberalisation has not significantly reduced the percentage of income from international trade to the government. If anything, it appears to have increased the percentage of income from trade taxes. This increase can perhaps be explained by the vigilance in collecting taxes after the ZRA was set up. A number of measures were taken to enhance and improve its revenue collection abilities, some of which are the use of computers in processing their data, and setting up of an anti-smuggling team (Ndulo, 2000).

Given the reduction in tariffs that the government has been implementing and their involvement in the COMESA free trade pact and SADC trade protocol, we do not see any reluctance on the part of the government to reduce trade taxes due to the perceived impact on its income. Still, there is no doubt that once the free trade area is operational, the percentage contribution of trade taxes to government income will fall. The government will have to supplement its income from domestic sources.

8 Trade Liberalisation, Growth and Poverty Reduction

Does economic growth result in the reduction of poverty? Does openness (liberalised trade regime) foster higher economic growth than a closed economy? And does trade liberalisation have a direct bearing on poverty reduction? These are the questions that will be discussed in this chapter with particular reference to Zambia. These issues are, however, quite complex. In the first place, answers to these questions will depend on a number of specific conditions that may make it impossible to draw any general conclusion. Apart from the nature of trade regime and the rate of economic growth, there are a number of other factors that influence poverty reduction. It is therefore not easy to trace the cause-effect relationship between openness, growth and poverty reduction. Furthermore, trade liberalisation in Zambia has not lasted for a sufficient length of time to generate data upon which reliable conclusions can be drawn.

However, it is important to attempt to figure out what is going on in terms of trade liberalisation, growth and poverty reduction. After all, poverty reduction is virtually the ultimate goal of the ongoing reforms and economic growth is one of the sure ways of ensuring sustainable prosperity. It is thus worthwhile to look at the data, however scant it is, to try to surmise any possible emerging trend in terms of economic growth and poverty reduction during the ten years of trade liberalisation in Zambia. But before we examine the data, we will make an eclectic review of theory on the link between openness, growth and poverty reduction.

Openness vs. Growth

Economic growth can be spurred by opening up of the economy through the enhancement of technical progress. This can be achieved by making new inputs available for local production, importing new production technologies and acquiring new management techniques. Also, by opening up new export possibilities some products that did not have value because of lack of market may become marketable. This is in line with the vent for surplus theory.

Openness may also increase output not only through pushing the production possibility frontier outwards, but also by ensuring that the economy operates efficiently, that is, that production takes place as close to the production possibility frontier as possible. This can be achieved by reducing the arbitrary policy interventions that tend to create inefficiency. It also permits specialisation and thus enhances efficient utilization of productive resources.

Growth vs. Poverty Reduction

There is extensive empirical evidence that show that growth does lead to poverty reduction (Bigsten and Levin; 2000, Winters, 2000). As long as a very serious worsening of income inequality and/or adverse terms of trade effects do not accompany economic growth, it will result into a reduction in absolute poverty. Furthermore, economic growth is likely to lead to employment creation and thus afford more people an opportunity to earn some income. However, if per capita income growth is accompanied by an increase in the inequality of income, it may not result in poverty reduction.

Openness vs. Poverty Reduction

How then can openness result into poverty reduction? One way would be if openness leads to economic growth that is not tampered by extreme inequality or serious adverse terms of trade. The other way is articulated by the Stolper-Samuelson theorem. This theorem postulates that an increase in the price of a labour intensive good raises real labour income and reduces real returns to capital. Protectionism in Zambia favoured mostly manufactured goods and these are mostly capital intensive. Trade liberalisation will be expected to open up the market for labour intensive goods while at the same time reducing the profitability of capital intensive goods. This will lead to an increase in the price of labour intensive goods relative to the price of capital intensive goods. Thus, according to the Stolper-Samuelson theorem, the real wage will increase while the real return on capital will be reduced. The real income of labour and thus of the majority who are poor, will increase as a result of liberalisation. Now, this theory is predicated on a number of restrictive assumptions, which may erode much of its predictive power. But still it forms an elegant way of organising our

thinking on how trade liberalisation may impact on poverty in Zambia. Indeed, as Winters (2000) noted, the basic insight of the Stolper-Samuelson theorem seems likely to hold under a very broad set of circumstances.

It must be borne in mind also that trade liberalisation in Zambia has been implemented hand-in-hand with other structural reforms, particularly the privatisation of parastatals, civil service reforms, introduction of user fees to some social services and reduction or elimination of subsidies on food and other important items. These structural reforms may, in the short-run, increase, rather than reduce the incidence of poverty.

Trade Liberalisation and Growth

Trade reforms in Zambia started to be instituted consistently from 1991. In order to gauge how trade liberalisation has impacted on poverty, an examination of the incidence on poverty from 1991 to date will be necessary. To do this properly we would need to have a counterfactual scenario that shows what would have happened to poverty without the reforms. Then we would compare the actual development against this scenario to see how reforms have affected poverty via their effects on growth and income distribution. This we cannot do within the limited framework of this report. Here, a more ad hoc discussion will have to suffice.

First we may note that economic growth was not significantly higher after the reforms than before (see Section 3). There is thus no strong growth effect in the short run, but one could probably argue that the growth pattern now is somewhat more sustainable and that the basis for higher longer term growth has improved. It may well be that the development without reforms would have been even worse, but we cannot say anything definite on this.

Trade Liberalisation and Poverty Reduction

Table 8.1 shows the incidence of poverty in Zambia for 1991, 1993, 1996 and 1998 as measured by the head count index. The table shows that for the whole country, the

incidence of poverty increased by 3.2 percent from 1991 to 1998. In terms of the rural/urban categorisation, the incidence of poverty increased in urban areas over the same period; an increase of 7 percent compared to a decrease of about 3 percent in rural areas.

In terms of stratum, notable is the decrease in poverty among large-scale farmers. In 1991, about 62 percent of households among large-scale farmers were poor. The percentage dropped dramatically to a mere 15.6 percent in 1998.

Table 8.1: Incidence of Poverty in Zambia, 1991-1998

	Incidence of Poverty (%)			
	1991	1993	1996	1998
All Zambia	69.7	73.8	69.2	72.9
Rural/Urban				
Rural	88.0	92.2	82.2	83.1
Urban	48.6	44.9	46.0	56.0
Stratum				
Small scale farmers	89.9	92.4	84.4	84.0
Medium scale farmers	78.5	90.8	65.1	71.9
Large scale farmers	61.6	.	34.9	15.6
Non-agricultural households	70.4	.	72.0	79.3
Low cost areas	55.5	50.1	51.1	61.2
Medium cost areas	42.6	40.9	32.4	49.4
High cost areas	36.1	33.0	23.8	33.5
Province				
Central	70.0	81.0	73.8	76.8
Copperbelt	61.1	49.3	55.6	65.0
Eastern	84.7	90.8	82.0	80.3
Luapula	84.0	88.4	78.8	80.9
Lusaka	30.0	38.9	38.0	52.0
Northern	84.0	86.1	83.9	81.1
North-western	74.7	88.0	80.3	75.8
Southern	79.1	86.5	75.9	75.8
Western	84.3	91.1	84.3	89.2

Source: Zambia (2000), Economic Report 1999, CSO, (1997), "The Evolution of Poverty in Zambia".

The incidence of poverty by province shows that some provinces registered an increase while others registered a decrease. The provinces that registered the highest increase in the incidence of poverty are the more urbanised ones, that is, Copperbelt, Central and Lusaka. A possible explanation for this is the loss of employment that most households suffered due to the decline of the copper industry and related activities, and privatisation.

Mattsson (2000) has used data collected by the CSO to analyse changes in poverty and inequality during the 1990s in Zambia. First, it is clear that per capita incomes have declined in Zambia during the 1990s in most years and the level of income at the end of the decade was about 25% below that at the beginning of the decade (see Section 3).

The poverty line used in most studies of Zambia is based on a study done by the Food and Nutrition Commission in 1991. On the basis of this, two poverty lines have been defined, one of extreme poverty (or food poverty) and one which adds 30% to the food basket for other expenditures which then gives the moderate poverty line. To update the poverty line, the CSO used the Zambian CPI.

The data which are available for Zambia derives from four surveys done by the CSO in 1991, 1993, 1996, and 1998. The results from these studies are presented in Table 8.2. In these data, there is no clearly discernable trend in poverty. It fluctuates.

Table 8.2: Incidence of poverty among Individuals (%)Poverty levels

	1991	1993	1996	1998
Total Poor				
Poverty line	K1,380	K8,480	K28,979	K47,188
All Zambia	70	74	69	73
Rural	86	92	83	83
Urban	49	45	46	56
Extremely Poor				
Poverty line	K961	K5,910	K20,180	K32,861
All Zambia	58	61	53	58
Rural	81	84	68	71
Urban	32	24	27	36

Sources: CSO (1997) and CSO (1999) from Mattsson (2000)

McCulloch, Baulch, and Cherel-Robson (2001) have re-analysed the CSO data but converted expenditures into per adult equivalent basis. The picture that emerges is similar. This analysis shows that the bottom four quintiles have experienced improvements in expenditure levels and for the bottom 30%, they were above 50% between 1991 and 1996. The top six quintiles thus saw expenditures per adult equivalent decline.

Another indication of levels of living is to look at the share of food in expenditures. For all of Zambia, the share declined slightly between 1991 and 1998 from 60% to

59%, while the share increased from 74 to 76% when looking at the poorest decile. This seems to contradict the result of McCulloch and Bauloch.

If one looks at the distribution of expenditures in the population, the CSO estimates show that there has been an equalisation. The share of the poorest 40% increased from 6% in 1991 to 11% in 1998 by their estimates, and the Gini coefficient declined from 0.59 to 0.52. McCulloch and Baulch get a similar result although their analysis only extends to 1996.

Alternative estimates of the cost of the food basket as well as its growth in the last two years suggest that the cost level is too high and the growth between 1996 and 1998 was also too high. Poverty levels may therefore actually be lower than what the estimates indicate (Mattsson, 2000, p 12).

The data basis for the analysis is possibly weak, but it does suggest that there has been a pro-poor growth pattern in Zambia. Improved income distribution has made it possible to contain poverty somewhat in spite of the decline in average income levels.

Alternative indicators of basic needs do show a more negative picture, though. There are indications of increasing undernutrition, and the life expectancy at birth has by some estimates fallen from 54 years in 1990 to around 37 years in 2000. The latter decline is largely driven by AIDS, though. Zambia has one of the highest incidence of HIV/AIDS in the world, with a prevalence rate in excess of 20%. It also has a high incidence of malaria and tuberculosis. The percentage of stunted children increased from 39% in 1991 to 53% in 1998. The UNDP's Human Development Index fell from 0.51 in 1991 to 0.42 in 2000 largely due to falling life expectancy. There have, however, been improvements in indictors relating to risk, vulnerability, powerlessness, and participation.

9 Policy Conclusions

The most important constraint hindering Zambia from realising its considerable economic potential is the quality of governance. With a committed and honest leadership, there would be vast scope for improvements in economic performance. The question is what this implies for donor relations. At present, the donors do not trust the government, which means that they force the government to undertake the various macroeconomic and structural reforms that they feel are needed. The interesting question is what the impact of this is. On the one hand, it means that reforms that are sensible are put in place. On the other hand, it may mean that the type of government that is needed for longer-term sustainable improvements will not be forthcoming. The leadership does not take full responsibility for the actions of government, nor is it fully committed to their success. This is a dilemma.

The most important aspect of government policy is not to come up with new reforms. What has been done and what is on the agenda is on the whole sensible and good. The main problem is to get an implementation of the policies that is efficient and committed. This requires skills on the one hand, but that is often there as well. What is lacking is commitment and leadership, and how to get that in place is the key question for Zambian development today. The issue of commitment is paramount in that it builds confidence in the private sector that the government will not decide to change the measures that are already in place. Confidence in the private sector in turn creates certainty, which is very important for business decisions.

In the private sector, there has traditionally been an attitude that when it has problems it asks for protection for "unfair" competition, when in general it would be more appropriate to try to improve productivity instead. There is need for a shift in attitudes within industry, although the situation on this front is somewhat better than it used to be. Most of the inefficient firms, which started during the import-substitution phase, collapsed during the 1990s, and those that are still in business are making progress.

It is not easy to be optimistic with regard to Zambia against the background of dismal failures that has characterised the development of the country in the last decades. The

prognoses that are given for 2000 in the HIPC decision point document in November of the same year seem much too optimistic with regard to GDP growth, inflation, money supply growth, and the fiscal deficit (IMF and IDA, 2000b). One may fear that once the country has cleared one hurdle set up by the donors, it will again lapse into its old ways. The country is at a crossroads and has a chance to take off and to do much better, but the probability of that scenario is hard to predict.

Since 1991, Zambia has in any case been converted from an economy dominated by state-owned enterprises, government administered price structures and extensive protectionism, to an open economy where prices are largely market determined and where the bulk of the parastatals have been restructured and privatised. This finally included also the all-important copper parastatal, ZCCM, which was finally privatised in March 2000. Based on the IMF's 10-point index of openness, Zambia has improved from a 2 in 1992 to a 7 in 2000. This opening up of the economy has led to a diversification of the export structure, but it has as yet not paid off in terms of growth. It needs to be noted that with the very open policy stance that Zambia has follows an increased demand on the government to pursue a credible and sound economic policy. This has not been the case and the major policy mistake was obviously the delays in the privatisation of ZCCM. This was seemingly done to make it possible for major players to do some classical asset stripping, at the same time as it cost the government several billion US dollars in losses that it had to cover. The remaining structural reforms in terms of privatisation are not hard to do if the will is there, but that still remains to be seen.

Another important policy concern with the government is the tendency to backslide and go back to controls that are known to hamper efficiency and distort incentives. A case in point is the issuing of import licenses for products that threaten goods on the local market. Clearly, the issuing of import licenses creates potential for rent seeking, a vice that siphons resources from productive uses. With the rampant allegations of corruption, the government should avoid going back to a regime of controls. Thus, instead of issuing import licences to protect the local industry, policies should be sustained long enough for local firms to realise ways in which they can compete with imports. The local industry should learn from being exposed to other products the

ways in which they need to improve on their products, rather than crying foul every time they are faced with stiff competition.

Regarding poverty reduction, the government's trade policy is on course. What is important however is to realise that in as much as trade policy is important in reducing poverty, it should be seen as just one part of an overall poverty reduction strategy. Other important aspects that should go hand in hand with trade policy are investments in human resources, development of infrastructure, and good governance.

Appendix: Macroeconomic Indicators for Zambia in the 1980s and 1990s

	CPI (% Yearchange)	Current account balance as % of GNP	Debt service to export ratio, L. & S. T. and IMF, ex post, %	GDP per capita (Constant 1995 US$)	Gross Dom. Fixed Investment (Constant 1995 US$)	Local currency per US$, market rate, period average	Resource balance as share of GDP (%)	Terms of trade index, 1995 = 100	Manufacturing value added (% of GDP)	Agriculture value added (% of GDP)
1980	11.6	-15.0	25.3	550.7	18.2	0.8	-4.0	136.1	18.5	14.2
1981	13.0	-20.0	36.0	566.0	17.5	0.9	-12.5	100.0	19.6	15.9
1982	13.6	-18.6	32.0	533.0	17.2	0.9	-8.8	73.5	20.6	13.7
1983	19.6	-6.4	27.1	506.6	14.7	1.3	1.4	94.7	19.8	14.2
1984	20.0	-10.7	25.3	489.8	12.6	1.8	1.8	100.1	20.5	14.5
1985	37.3	-16.3	14.4	483.1	10.2	3.1	-0.8	114.8	22.9	13.1
1986	51.8	-27.6	51.0	472.5	10.7	7.8	-1.7	125.2	22.7	12.2
1987	43.0	-18.1	18.6	471.0	9.0	9.5	3.8	157.4	25.7	10.9
1988	55.4	-7.9	15.5	485.9	7.7	8.3	7.1	192.0	30.8	16.4
1989	127.7	-6.2	13.6	466.6	6.6	13.8	-7.0	101.6	31.0	19.1
1990	117.4	-12.9	15.1	450.2	13.5	30.3	-0.7	131.1	31.9	18.2
1991	93.2	-17.1	51.1	436.7	11.4	64.6	-2.6	112.0	33.3	15.8
1992	169.1	-26.3	29.3	416.6	10.6	172.2	-11.9	84.3	33.2	21.3
1993	188.1	-15.6	34.5	432.5	11.5	452.8	-6.0	85.3	25.0	30.5
1994	53.6	-12.8	31.3	406.2	13.3	669.4	-4.2	92.6	9.8	13.5
1995	34.2	-14.4	195.3	386.4	13.6	857.2	-5.8	100.0	9.9	16.2
1996	46.3	-13.8	22.3	401.0	14.5	1203.7	-6.2	89.8	11.7	15.4
1997	24.8	-11.8	20.5	404.7	13.1	1333.8	-5.2	94.8	11.8	16.3
1998	28.7	-16.2	23.1	387.5	13.3	1861.6	-9.0	83.8	11.4	17.3

Source: World Bank (2000), World Development Indicators CD ROOM.

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