Zambia Country Report

1. Trade structure and patterns

1.1 Aggregate trade

Zambia's trade balance remained unfavourable from 1999 to 2003, despite the religious implementation of the stabilisation and structural adjustment programme since 1991 under the support of the International Monetary Fund, World Bank and bilateral donors. Export earnings declined by an average of -0.1% while imports increased by an average 20% annually over the same period with the trade balance deteriorating from US$274 million in 1999 to -US$601 million in 2003 as reflected in Table 1. The country's macroeconomic policy focused on reaching the decision and completion points of the enhanced highly indebted poor countries initiative of demand restraint and ensuring the attainment of the IMF/World Bank quantitative benchmarks and performance criteria. Demand restraint focused at improving both the fiscal balance and external position through curtailing public sector spending by targeting a budget deficit of 1.55% of GDP for 2003. However, the country went out of line with the IMF/World Bank programme and was subsequently placed under an IMF staff monitored programme due to the high fiscal deficit, which put excessive pressure on both money supply and the exchange rate. The situation was further exacerbated by maize imports in 2001 and high oil prices in 2003.

Zambia's trade with South Africa and the rest of SADC has also remained unfavourable with the South Africa trade being worse off. Exports to South Africa grew slower at an average of 13% while imports grew faster at an average of 22% over the same period, resulting in a worsening trade balance of -US$544 million in 2003 compared to -US$189 million in 1999. While trade with the rest of SADC is relatively smaller, the trend is some what encouraging with exports increasing by an average of 27%, thereby performing marginally better than imports by a percentage point. The rapid reductions of trade tariffs in Zambia compared to her trading partners, coupled with the simultaneous liberalisation of both the current and capital accounts as well as poor infrastructure could provide further explanation for the unfavourable external trade outcome.

Table 1: Zambia's Trade Balance with the world and with SADC, 1999-2003 (USD Million).

	1999	2000	2001	2002	2003	Growth
Exports	974.8	852.5	979.6	893.9	946.3	-0.1%
Imports	700.9	863.5	1,080.2	1,094.8	1,547.0	20.0%
Trade Balance	273.9	-11.0	-100.6	-200.9	-600.7	
Exports to SA	120.0	166.8	217.0	198.4	204.6	13.2%
Import from SA	308.7	480.7	603.3	597.5	748.9	22.0%
Trade Balance with SA	-188.6	-313.9	-386.3	-399.1	-544.2	
Exports to SADC	76.0	44.4	37.1	87.4	180.0	27.1%
Import from SADC	89.9	101.7	126.7	127.3	257.4	26.2%
Trade Balance with SADC	-13.8	-57.3	-89.6	-39.9	-77.4	
Source: SADC Trade Database						

1.2 Top 10 import sources and export destinations

SADC represents Zambia's main source of imports for 2003 which stand at 63% of the country's total imports as seen in Table 2. Most of the imports from SADC come from three countries of which SA is the largest, representing 48% of total imports. The country composition of imports seems to be explained by price, shipment costs, and the nature of imports, to be further discussed under import composition and revealed comparative advantage. The country's imports are predominately manufactured goods and petroleum. Over the period 1999 to 2003, the country's main source of petroleum was Saudi Arabia and the United Arab Emirates. However, SA and Tanzania have from time to time supplied oil products to the country due to persistent closures of the country's oil refinery.

Zambia's exports are dominated by the UK, at 27% in 2003, followed by two SADC countries, SA (22%) and Tanzania (14%). Although Zambia's trade with SADC countries outside SA is relatively small, recent developments reveal positive trends. Consequently, five of the country's 10 top export destinations in 2003 are SADC countries.

1.3 Exports and imports by region

Table 3 confirms the discussion in subsection 1.2 with exports dominated by SADC countries at 41% in 2003. The second major regional destination of the country's exports is the EU at 35%. As seen previously, imports largely come from SADC at 65%. Imports from SADC range from agricultural commodities, oil products through manufactured goods. The EU come second while Asia takes the third position, largely representing the country's traditional sources of petroleum. Due to the country's geographic location, the country holds potential to supply the regional market which is yet to be realised probably due to delays in reducing trade tariffs by other SADC countries outside SA.

Another observation that can be made is that the low level of NAFTA trade is a reflection that Zambia is yet to benefit from AGOA and selective reductions of tariffs provided by other countries such as Canada, although distance to market, the selection of the qualifying commodities and other non-tariff issues continue to create a natural trade barrier. For example, Canada provides duty and quota free access of most agriculture goods into the Canadian market, however, products which are readily produced in Zambia such as poultry and eggs do not qualify. The agreement is most likely not be in place by the time the country develops its export capacity for qualifying products which in a way acts as a deterrent for medium to long term investment in those product lines.

Table 2: Top 10 Sources of Imports and Destinations for Exports 2003

		Imports			Exports
Country	US$ '000	Share of total (%)	Country	US$ '000	Share of total (%)
South Africa	748,872	48.4	United Kingdom	252,503	26.7
Zimbabwe	198,389	12.8	South Africa	204,642	21.6
United Kingdom	92,224	6.0	United Rep. of Tanzania	131,334	13.9
United Arab Emirates	67,152	4.3	Switzerland	76,914	8.1
China	42,540	2.7	Dem. Rep. of the Congo	36,688	3.9
India	34,381	2.2	India	34,089	3.6
USA	32,570	2.1	Belgium	27,400	2.9
France	28,738	1.9	Netherlands	26,454	2.8
Finland	26,344	1.7	Malawi	20,237	2.1
United Rep. of Tanzania	23,530	1.5	Zimbabwe	18,313	1.9

Table 3: Exports and Imports by Region 2003

Region	Exports	Imports		
	US$ '000	%	US$ '000	%
SADC	384,613	41	1,006,250	65.0
NAFTA	7,171	1	44,470	2.9
European Union	334,295	35	221,881	14.3
MERCOSUR	0	0	3,461	0.2
Japan	15,485	2	23,393	1.5
China	15,962	2	42,540	2.7
Africa	46,353	5	43,350	2.8
Oceania	30	0	5,529	0.4
Americas	4,137	0	627	0.0
Asia	59,591	6	142,737	9.2
Other	78,643	8	12,791	0.8

1.4 Fastest growing import and export partners

Zambia's fast growing imports are dominated by non SADC countries comprised of Jamaica, Philippines, Uganda, etc as seen in Table 4. Imports from these countries are relatively small no more than US$23 million in 2003 for the highest country and does not seem to hold comparative advantage as trade partners. The same pattern is also generated when looking at exports with the highest exports being to China at slightly under US$16 million in 2003. However, these countries hold potential to become significant trade partners for the future, particularly if concerted efforts are made to add value to the commodities. The growth of trade partners appear not to be affected by the existence of trade agreements and market access.

Table 4: Fastest Growing Trade Partners

Imports			Exports		
Country	Value 2003 US$	Average growth 1999 – 2003 (%)	Country	Value 2003 US$	Average growth 1999 – 2003 (%)
Jamaica	32,030	241.0%	China	15,961,886	361.11
Philippines	191,035	232.7%	Mauritius	3,721,489	293.84
Uganda	5,306,883	226.6%	Ukraine	211,056	284.49
Mexico	1,673,270	190.5%	Finland	12,212,040	264.50
Neth. Antilles	152,460	144.6%	Lesotho	155,925	145.29
Syria	39,177	117.3%	Egypt	880,923	129.71
Ukraine	84,979	105.7%	Mali	371,711	104.35
Kenya	23,285,193	83.2%	United Arab Emirates	6,968,680	93.59
Uruguay	43,525	71.8%	France	5,100,802	89.08
Former Yugoslavia	58,891	62.3%	Cyprus	11,045	88.13

1.5 Commodity composition of trade

The commodity composition of imports is dominated by machinery, mineral production, chemicals and vegetables, thereby exhibiting the structural rigidities in the Zambian economy. Major imports from the world comprise of machinery (23%), chemicals (16%) and mineral products (11%) as can be seen in Table 5 below. Mineral products are dominated by petroleum products. The bulk of the country's imports come from SADC, as reflected by Table 2. This reveals a bias towards regional trade as a consequence of easier market access and probably deepening regional integration. Imports from SA are dominated by machinery (22%) followed by chemicals (20%), vehicles (10%) and to a limited extent, mineral products (8%). Imports of the rest of SADC comprise of mineral products (24%), vegetables (15), and chemicals (12%). The importation of mineral products, characterised by petrol and diesel, is a temporary phenomenon arising from the need to mitigate

against fuel shortages due to the closures of the oil refinery which are increasingly becoming frequent. Vegetable imports consist of cereals, edible vegetables and milling products. It is quite surprising why the country should continue importing large amounts of vegetables, despite its large agricultural potential.

Zambia has not significantly diversified its exports to the world from copper cathodes since 1930. The composition of the country's exports continues to be dominated by base metal exports (68%) of which copper cathodes is the major one followed by cobalt (*see table 6*). The country's efforts to add value to its base metal production and diversify exports have been slow as reflected by low levels of production of and export of copper plate sheets and copper wire. The policy stance has not been backed up with appropriate policy strategy and instruments to remove structural rigidities in the supply of refined copper and other base metals products to local industries. The pattern of exports to SA and the rest of SADC remained the same with copper cathodes accounting for 69% and 70% respectively. In addition, cotton exports to

Table 5: Commodity Composition of Imports 2003

Product	Share of Total Imports from World (%)	Share of Total Imports from South Africa (%)	Share of Total Imports f rom RoSADC (%)
Ch 1: Live Animals	0.5%	0.4%	1.1%
Ch 2: Vegetables	8.1%	8.7%	15.0%
Ch 3: Animal or Vegetable Fats	2.4%	2.6%	1.3%
Ch 4: Prepared Foods	1.7%	1.8%	4.1%
Ch 5: Mineral Products	11.0%	8.3%	23.8%
Ch 6: Chemicals	16.0%	19.7%	11.8%
Ch 7: Plastics	6.0%	7.5%	6.0%
Ch 8: Leather	0.1%	0.1%	0.0%
Ch 9: Wood Products	0.2%	0.3%	0.5%
Ch 10: Wood Pulp & Paper	6.5%	3.7%	5.9%
Ch 11: Textiles	3.7%	2.0%	5.3%
Ch 12: Footwear	0.6%	0.4%	0.2%
Ch 13: Stone & Glass	1.4%	1.7%	1.6%
Ch 14: Precious Metals	0.1%	0.1%	0.0%
Ch 15: Base Metals	7.3%	8.8%	8.9%
Ch 16: Machinery	23.3%	21.8%	9.7%
Ch 17: Vehicles	8.4%	9.9%	1.9%
Ch 18: Scientific Equipment	1.3%	1.0%	0.2%
Ch 19: Arms & Ammunition	0.1%	0.0%	0.0%
Ch 20: Misc. Manufactures	1.2%	1.1%	2.3%
Ch 21: Art & Antiques	0.0%	0.0%	0.0%
Ch 22: Unclassified	0.1%	0.1%	0.1%
Total Value of Imports (US$ million)	1,547	749	257

SA accounted for 11%, largely attributed to the collapse of the textiles industry due to poor timing and sequencing of the reduction of trade tariffs and other liberalisation measures. Although a drastic reduction in both external and regional tariff rates was a consequence of the liberalisation policies, domestic taxes remained high in comparison to those prevailing in trading partners. This, compounded with uncertainties in the business environment arising from unstable macroeconomic variables and unpredictable changes in economic policy instruments, lead to severe difficulties in the operations of local industries. Moreover, finished products were imported into the country at low or duty free while intermediate inputs which include packaging materials used in the production of the same goods domestically attracted a higher duty which rendered most industries uncompetitive. Other cases in point pertain to the government intention to move to zero regional internal tariffs by the turn of the millennium without a time table for implementation of zero tax on imported inputs nor a common external tariff both of which should have precede the introduction of inter-COMESA free trade.

Table 6: Commodity Composition of Exports

P roduct	Share of Total Exports to World (%)	Share of Total Exports to South Africa (%)	Share of Total Exports to RoSADC (%)
Ch 1: Live Animals	0.2%	0.0%	0.1%
Ch 2: Vegetables	5.3%	3.6%	5.6%
Ch 3: Animal or Vegetable Fats	0.0%	0.0%	0.2%
Ch 4: Prepared Foods	5.9%	4.1%	8.7%
Ch 5: Mineral Products	3.6%	4.0%	2.9%
Ch 6: Chemicals	0.8%	0.3%	1.9%
Ch 7: Plastics	0.2%	0.1%	0.1%
Ch 8: Leather	0.3%	0.6%	0.0%
Ch 9: Wood Products	0.4%	1.3%	0.2%
Ch 10: Wood Pulp & Paper	0.3%	0.9%	0.1%
Ch 11: Textiles	5.2%	10.7%	3.1%
Ch 12: Footwear	0.2%	0.0%	0.7%
Ch 13: Stone & Glass	0.1%	0.0%	0.3%
Ch 14: Precious Metals	7.4%	1.2%	0.2%
Ch 15: Base Metals	67.7%	69.2%	69.6%
Ch 16: Machinery	2.0%	3.5%	5.6%
Ch 17: Vehicles	0.3%	0.4%	0.7%
Ch 18: Scientific Equipment	0.0%	0.0%	0.0%
Ch 19: Arms & Ammunition	0.0%	0.0%	0.0%
Ch 20: Misc. Manufactures	0.0%	0.0%	0.0%
Ch 21: Art & Antiques	0.1%	0.0%	0.0%
Ch 22: Unclassified	0.0%	0.0%	0.0%
Total Value of Exports (US$ million)	946	205	180

1.6 Fastest growing import and export commodities

1.6.1 Fastest growing export commodities

Zambia's fastest growing exports to the world are not in its traditional exports and their derivatives but rather, in miscellaneous products which seem to bear little or no relevance to the country's comparative advantage. Miscellaneous edible preparation (dominated by food preparations not elsewhere classified) at 154% tops the list, followed by zinc and articles thereof at 134% as can be seen from Table 7 below. However, there are a number of products on the list which hold potential for exports as a consequence of the country's natural resource endowment such as footwear (47%), precious stones (44%), meat and freshwater fish (35%), etc. In order to realise this potential, there is a need to invest in developing and acquiring appropriate technology and improving product quality.

Table 7: Fastest Growing Exports to the World (Average Growth Rate 1999-2003)

Product	Value % 2003 US$ '000	Growth
H21: Miscellaneous edible preparations	2,040	153.5
H79: Zinc and articles thereof	469	134.0
H59: Impregnated, coated or laminated textile fabric	57	57.2
H46: Manufactures of plaiting material, basketwork, etc.	57	49.9
H95: Toys, games, sports requisites	19	47.7
H64: Footwear, gaiters and the like, parts thereof	2,101	47.1
H71: Pearls, precious stones, metals, coins, etc	70,321	44.4
H30: Pharmaceutical products	1,715	36.7
H16: Meat, fish and seafood food preparations nes	233	35.3
H90: Optical, photo, technical, medical, etc apparatus	18	29.7
H28: Inorganic chemicals, precious metal compound, isotopes	1,597	25.7
H56: Wadding, felt, nonwovens, yarns, twine, cordage, etc	93	24.6
H76: Aluminium and articles thereof	2,345	24.2
H84: Nuclear reactors, boilers, machinery, etc	12,927	22.7
H39: Plastics and articles thereof	1,218	21.1
H38: Miscellaneous chemical products	445	20.0
H27: Mineral fuels, oils, distillation products, etc	12,665	16.9
H10: Cereals	6,668	16.0
H24: Tobacco and manufactured tobacco substitutes	18,141	15.1

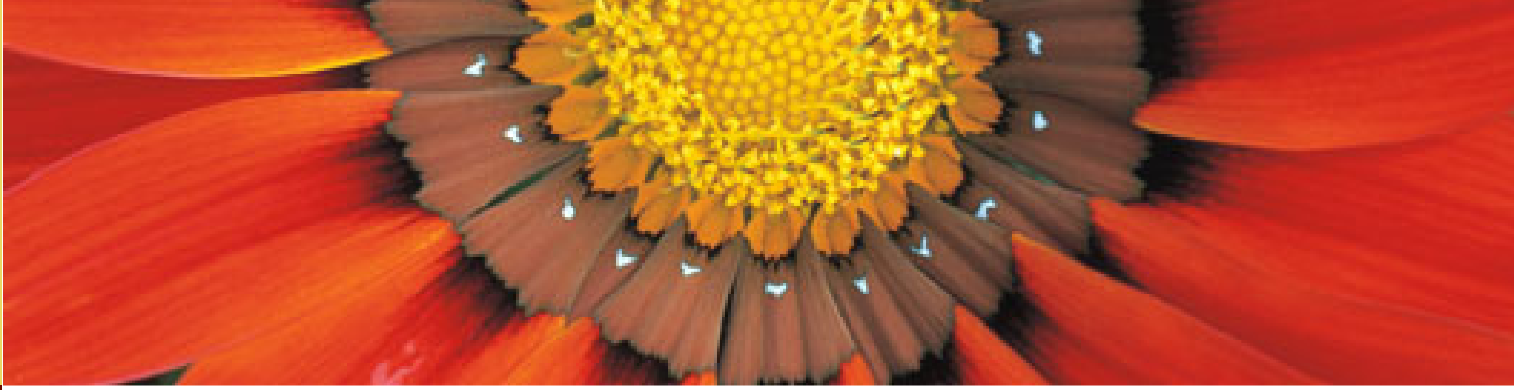
Zambia's fastest growing exports to SA are in minor and miscellaneous products in which the country holds little or no comparative advantage. The list is topped by products such as sugars and sugar confectionery (molasses and sold cane), ceramic, textile fabric (rub-

Table 8: Fastest Growing Exports South Africa (Average Growth Rate 1999-2003)

Product	V alue 2003 US$ '000	Growth %
H17: Sugars and sugar confectionery	6,249	262.4
H69: Ceramic products	41	256.8
H59: Impregnated, coated or laminated textile fabric	8	169.7
H38: Miscellaneous chemical products	120	137.7
H79: Zinc and articles thereof	417	128.6
H84: Nuclear reactors, boilers, machinery, etc	2,978	80.7
H96: Miscellaneous manufactured articles	30	73.5
H34: Soaps, lubricants, waxes, candles, modelling pastes	13	66.2
H87: Vehicles other than railway, tramway	849	58.9
H76: Aluminium and articles thereof	2,199	52.3
H07: Edible vegetables and certain roots and tubers	85	41.2
H24: Tobacco and manufactured tobacco substitutes	1,040	40.5
H72: Iron and steel	1,784	38.3

Table 9: Fastest Growing Exports to the rest of SADC (Average Growth Rate 1999-2003)

Product	Value 2003 US$ '000	Growth %
H09: Coffee, tea, mate and spices	65	425.0
H21: Miscellaneous edible preparations	1,717	256.6
H34: Soaps, lubricants, waxes, candles, modelling pastes	319	182.1
H58: Special woven or tufted fabric, lace, tapestry etc	46	149.6
H74: Copper and articles thereof	123,177	130.1
H15: Animal,vegetable fats and oils, cleavage products, etc	276	128.8
H11: Milling products, malt, starches, inulin, wheat gluten	3,936	112.4
H30: Pharmaceutical products	1,443	92.3
H78: Lead and articles thereof	309	65.3
H10: Cereals	5,474	59.2
H64: Footwear, gaiters and the like, parts thereof	1,119	53.2
H84: Nuclear reactors, boilers, machinery, etc	9,318	43.2
H82: Tools, implements, cutlery, etc of base metal	726	41.9
H83: Miscellaneous articles of base metal	1	41.4
H07: Edible vegetables and certain roots and tubers	78	37.3
H57: Carpets and other textile floor coverings	0	31.0
H52: Cotton	5,310	30.2



berlised) which are erratic and of insignificant values (*see table 8*). A number of products with the exception of scrap metal (iron and steel, whose export has been banned) and raw materials (unprocessed tobacco) are re-exports as the country does not have industries producing the commodities such as pumps and automobiles. What seems to emerge is that there are still substantial barriers to trade, despite SA's undertaking to liberalise trade with the rest of SADC more quickly.

The country's exports to the rest of SADC, with the exception of copper and articles thereof, although still small, are of relatively more importance. The importance of this regional trade for Zambia is in that not only is the country seen as a source of raw material but also manufactured products, the most import of which is copper cathodes and copper wire as reflected in Table 9. The growth of copper exports and its derivatives recognises the country's comparative advantage. The value of the rest of the export products is small. However, their high growth rates reflect the potential that regional trade holds for the country outside SA.

1.6.2 Fastest growing import commodities

Table 10: Fastest Growing Imports from the World (Average Growth Rate 1999-2003)

Product	Value 2003 US$ '000	Growth %
H78: Lead and articles thereof	835	201.1
H43: Furskins and artificial fur, manufactures thereof	10	137.9
H81: Other base metals, cermets, articles thereof	7,709	118.9
H24: Tobacco and manufactured tobacco substitutes	409	100.0
H71: Pearls, precious stones, metals, coins, etc	1,585	96.5
H07: Edible vegetables and certain roots and tubers	24,313	83.0%
H92: Musical instruments, parts and accessories	474	79.6
H11: Milling products, malt, starches, inulin, wheat gluten	19,109	67.7
H47: Pulp of wood, fibrous cellulosic material, waste etc	367	64.6
H25: Salt, sulphur, earth, stone, plaster, lime and cement	37,234	61.5
H53: Vegetable textile fibres nes, paper yarn, woven fabric	490	50.0
H34: Soaps, lubricants, waxes, candles, modelling pastes	18,664	47.4
H10: Cereals	69,776	45.3
H03: Fish, crustaceans, molluscs, aquatic invertebrates nes	2,884	43.0
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	10,128	40.6
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	5,904	40.4
H86: Railway, tramway locomotives, rolling stock, equipment	4,183	39.1
H29: Organic chemicals	24,034	34.9
H69: Ceramic products	12,951	34.2
H28: Inorganic chemicals, precious metal compound, isotopes	42,098	32.8

Zambia's fastest growing imports from the world, like its fastest growing exports to the world, do not reflect the country's traditional or most important imports nor comparative advantage. .As can be seen from Table 10, the products range from minor manufacture and semi-manufactured consumer and non consumer goods such as lead bars, tanned or dressed furskin pieces, unwrought magnesium, cigarettes, imitation jewellery, articles of metal clad with precious stones, etc. The fastest growing imports from South Africa are also in commodities whose value is minor such as articles made of cobalt not elsewhere specified, vegetable textiles fibres not elsewhere specified, waste or scrap paper, etc. as reflected in Table 11. As pointed out already, the list largely reflects market access and trade liberalisation on the Zambian side. The same pattern emerges when one looks the fastest growing imports from the rest of SADC. On top of the list is insignificant amounts of articles of lead not elsewhere specified followed by cigars and cigarettes not elsewhere specified as well as small amounts of ceramic products and inorganic chemicals at the bottom of the list as Table 12 shows.

Table 11: Fastest Growing Imports from South Africa (Average Growth Rate 1999-2003)

Product	Value 2003 US$ '000	Growth %
H81: Other base metals, cermets, articles thereof	3,288	256.6
H53: Vegetable textile fibres nes, paper yarn, woven fabric	143	213.5
H78: Lead and articles thereof	452	166.0
H43: Furskins and artificial fur , manufactures thereof	6	123.5
H10: Cereals	48,320	102.3
H71: Pearls, precious stones, metals, coins, etc	970	95.0
H24: Tobacco and manufactured tobacco substitutes	214	86.6
H47: Pulp of wood, fibrous cellulosic material, waste etc	298	76.1
H07: Edible vegetables and certain roots and tubers	11,909	75.7
H11: Milling products, malt, starches, inulin, wheat gluten	1,787	74.2
H59: Impregnated, coated or laminated textile fabric	1,234	72.6
H25: Salt, sulphur, earth, stone, plaster, lime and cement	13,459	71.1
H86: Railway, tramway locomotives, rolling stock, equipment	2,939	61.3
H54: Manmade filaments	756	60.8
H05: Products of animal origin, nes	294	50.6
H69: Ceramic products	8,725	49.5
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	652	46.5
H13: Lac, gums, resins, vegetable saps and extracts nes	95	39.4
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	8,042	39.2
H26: Ores, slag and ash	112	38.6

Table 12: Fastest Growing Imports from the RoSADC (Average Growth Rate 1999-2003)

Product	Value 2003 US$ '000	Growth %
H78: Lead and articles thereof	383	687.3
H24: Tobacco and manufactured tobacco substitutes	182	163.6
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	417	141.0
H34: Soaps, lubricants, waxes, candles, modelling pastes	10,584	96.1
H28: Inorganic chemicals, precious metal compound, isotopes	5,675	81.8
H07: Edible vegetables and certain roots and tubers	5,815	72.2
H08: Edible fruit, nuts, peel of citrus fruit, melons	2,674	65.8
H59: Impregnated, coated or laminated textile fabric	518	62.3
H82: Tools, implements, cutlery, etc of base metal	491	61.1
H25: Salt, sulphur, earth, stone, plaster, lime and cement	22,801	60.5
H11: Milling products, malt, starches, inulin, wheat gluten	17,215	59.9
H73: Articles of iron or steel	10,806	55.7
H63: Other made textile articles, sets, worn clothing etc	7,747	55.5
H03: Fish, crustaceans, molluscs, aquatic invertebrates nes	2,574	52.3
H97: Works of art, collectors pieces and antiques	14	49.9
H39: Plastics and articles thereof	11,430	47.5

2. Trade intensity with the SADC region

Both the export and import intensities indices for Zambia are greater that 1 as indicated in Table 13. This is a positive sign for regional trade as it means that both the proportion of the country exports to SADC and imports from SADC is greater than the proportion of SADC exports and imports to the rest of the world. This implies that either SADC importers have a preference for the country's exports with an upward trend while the country's importers have a bias towards SADC products with a some what declining trend.

However, both indices are too large to be taken seriously. Although SADC trade provides a substantial proportion of Zambia trade, it should be noted that intensity calculations may produce incongruous results. Therefore, care must be taken in their interpretations. In the Zambian context, these results could indicate the country's high potential that could be derived from increased trade with SADC.

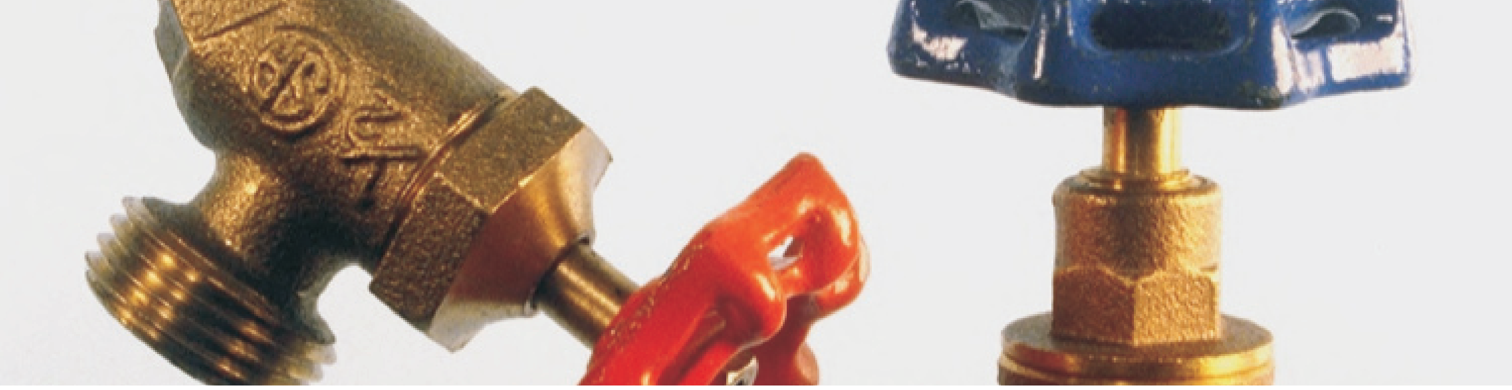
3. Intra-industry trade

.Intra-industry trade between Zambia and the world, SA and the rest of SADC differ markedly. The intra-industry trade, as measured by the Grubel-Lloyd Index, shows whether a country can benefit from reducing trade barriers as a consequence of specialization as industries capitalises on the gains from returns to scale. The higher the intra-industry trade, the more likely the country will benefit from reduction in trade barriers. Table 14 portrays that the country has substantial intra-industry trade in the manufactured copper products such as insulated wire, sugar confectionery, cement, electric energy, etc, products in which the country may exhibit some comparative advantage. However, the high intra-industry trade in other products such as machinery and special purpose motor vehicles may be misleading as the country does not produce such goods.

Table 14: Intra-Industry Trade with the World: Top 15 Commodities (HS4)

Commodity	Grubel-Lloyd Index	Exports 2003 (US$ '000s)	Imports 2003 (US$ '000s)
H8544: Insulated wire and cable, optical fibre cable	0.99	5,294	5,435
H1704: Sugar confectionery, non-cocoa, white chocolate	0.87	1,950	1,501
H2523: Cement (portland, aluminous, slag or hydraulic)	0.83	6,159	4,404
H8474: Machinery to sort, screen, wash, etc mineral products	0.76	8,214	13,278
H2716: Electrical energy	0.66	4,946	2,433
H2106: Food preparations, nes	0.63	1,980	4,337
H1103: Cereal grouts, meal and pellets	0.58	1,658	4,031
H2503: Sulphur, except sublimated, precipitated, colloidal	0.46	2,071	6,847
H8429: Self-propelled earth moving, road making, etc machines	0.42	3,162	11,833
H1005: Maize (corn)	0.38	6,279	27,073
H8705: Special purpose motor vehicles	0.25	484	3,339
H3004: Medicaments, therapeutic, prophylactic use, in dosage	0.23	1,601	12,427
H2710: Oils petroleum, bituminous, distillates, except crude	0.22	6,800	56,029
H2603: Copper ores and concentrates	0.17	10,938	1,019
H5201: Cotton, not carded or combed	0.16	24,697	2,191
Weighted average of total intra-industry trade	0.10		

With the exception of insulated wire, intra-industry trade in the remaining commodities is either misleading or weak. This means that not much benefit is being derived from reduced trade barriers with SA. Zambian producer's and suppliers have been knocked out of business or lost their market share due to the speed and poor sequencing with which the country reduced trade barriers and the unparalleled tax concessions awarded to the new owners of the mines in the wake of privatisation. Moreover, non tariff barriers may also be affecting trade



with SA. However, increased trade with the rest of SADC, like was the case with world trade, is promising to be of benefit to the country due to the high intra-industry trade in commodities were the country could hold comparative advantage with the exception of machinery such as food products, insulated wire, electrical energy and footwear, as can be seen in Table 16. The weighted industrial average for the selected 15 commodities is higher for world trade compared to trade with the rest of SADC and lowest for trade with SA. This seems to suggest that there will be greater gains in expanding trade with the world than with the rest of SADC and least of all SA. This is quite discomforting. One can however, draw comfort in that the results of the Grubel-Lloyd Index depends on the level to which the data is disaggregated, with higher levels of disaggregation resulting in less evidence of intra-industry trade.

Table 15: Intra-Industry Trade with South Africa: Top 15 Commodities (HS4)

Commodity	Grubel-Lloyd Index	Exports 2003 US$ '000s)	Imports 2003 (US$ '000s)
H4907: Documents of title (bonds etc), unused stamps etc	0.97	1,722	1,819
H8544: Insulated wire and cable, optical fibre cable	0.67	4,125	2,092
H8429: Self-propelled earth moving, road making, etc machines	0.47	2,426	7,931
H8105: Cobalt mattes, etc, articles, waste or scrap	0.29	19,398	3,234
H4407: Wood sawn, chipped lengthwise, sliced or peeled	0.11	1,913	111
H1005: Maize (corn)	0.07	811	20,887
H8207: Interchangeable tools and dies for hand or power tools	0.07	65	1,755
H7213: Hot rolled bar, rod of iron/steel, in irregular coils	0.07	67	1,796
H8430: Earth or snow moving, boring or pile driving machines	0.06	61	1,912
H7408: Copper wire	0.05	9,968	273
H2503: Sulphur, except sublimated, precipitated, colloidal	0.05	195	7,791
H8708: Parts and accessories for motor vehicles	0.03	179	10,267
H8716: Trailers and non-mechanically propelled vehicle nes	0.03	43	2,604
H3004: Medicaments, therapeutic, prophylactic use, in dosage	0.03	76	4,749
H8431: Parts for use with lifting, moving machinery	0.03	140	9,794
Weighted average of total intra-industry trade	0.03		

Table 16: Intra-Industry Trade with the RoSADC: Top 15 Commodities (HS4)

Commodity	Grubel-Lloyd Index	Exports 2003 (US$ '000s)	Imports 2003 (US$ '000s)
H8704: Motor vehicles for the transport of goods	0.99	817	832
H8426: Derricks, cranes, straddle carriers, crane trucks	0.98	371	354
H8429: Self-propelled earth moving, road making, etc machines	0.97	598	631
H1704: Sugar confectionery, non-cocoa, white chocolate	0.97	894	947
H3004: Medicaments, therapeutic, prophylactic use, in dosage	0.97	1,413	1,505
H7802: Lead waste or scrap	0.89	299	238
H2106: Food preparations, nes	0.87	1,707	1,309
H6811: Articles of asbestos-cement & cellulose fibre cement	0.80	487	326
H1507: Soya-bean oil, fractions, not chemically modified	0.73	276	478
H1005: Maize (corn)	0.72	5,248	9,390
H3808: Insecticides, fungicides, herbicides etc (retail)	0.64	322	690
H8703: Motor vehicles for transport of persons (except buses)	0.53	146	410
H8544: Insulated wire and cable, optical fibre cable	0.48	630	199
H2716: Electrical energy	0.44	1,663	467
H6402: Footwear nes, with outer sole, upper rubber or plastic	0.36	895	196
Weighted average of total intra-industry trade	0.098		

4. Tariff analysis

The Zambian authorities are encouraging an outward looking development strategy as a consequence of three initiatives: the SAP, COMESA and 1995 Cross Border Initiative (CBI) agendas. In this regard, the government introduced a more uniform, lower rate tariff regime and a reduction in the average tariff level. Subsequently, tariffs were set at a minimum of 20% and maximum of 40% by 1993. The import licence fee of 10% was also abolished. Further, discretionary waivers and exemptions on import taxes were also revoked in preference for incentives provided under the new investment Act of 1991 which created the Zambia Investment Centre (ZIC) for the purpose of investment promotion in the country. The process of removing impediments to exports goes back to 1990 when export licensing streamlined and shifted from the Bank of Zambia to commercial banks, and the reduction of the up-lift factor to 1.2%. The CBI agenda called for:

• Removal of all tariff barriers on intra regional trade by 1998

• Immediate abolition of all non-tariff barriers

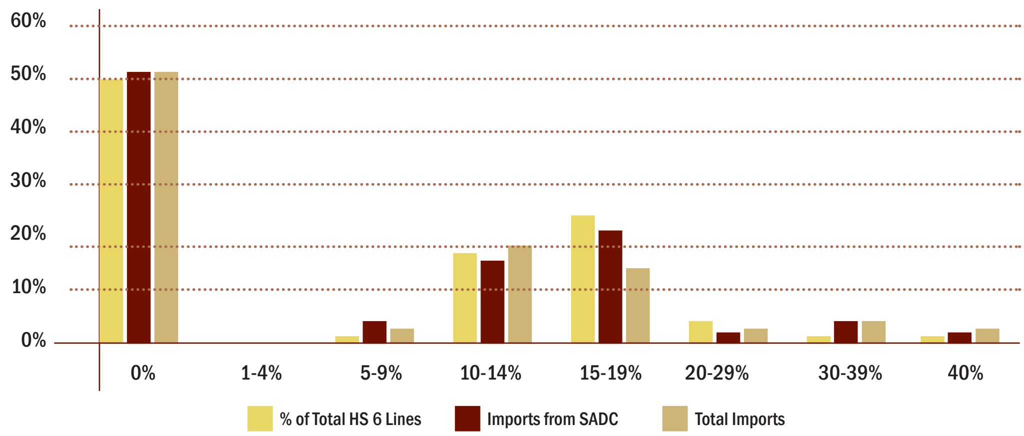
• Minimisation of the risk of trade diversion and promotion of integration into the world economy and

• Harmonisation of external tariffs by the end of 1998 with no more than three non-zero rates, an average trade weighted tariff rate of 15 percent and a maximum of 20% to 25%.

Zambia had already implemented at least one of the tariff reforms endorsed by the CBI prior to 1995. The maximum tariffs were reduced to 25% by 1995 for the CBI participating countries.

Despite the problems associated with the speed with which Zambia liberalised trade only 51% of tariffs lines of its imports from SADC out of a total tariff lines of 5161 were zero rated compared to 53% of its imports from the world as depicted in Table 17 and Figure 1. This is largely due to its nature of trade with SADC. The zero rated products are largely raw materials and productive machinery in agriculture and industry most of which is sourced from the world and commodities originating from the Common Market for Eastern and Southern Africa (COMESA) member states due to the implementation of free trade area within the grouping. The maximum tariff is at 25% which is applied to manufactured goods for final consumption. Most of the tariff lines are clustered around the zero rated goods which is followed by the tariff lines between 10-19%. While this situation may not be surprising for SADC due to the small proportion of SADC trade, it is unexpected with respect to total imports whereby the commodity composition of imports from the rest of the world are dominated by minerals products and chemicals which are not zero rated as was reflected by Table 5. Apart from machinery, most of Zambia's imports are goods for final consumption which are supposed to attract the maximum tariff.

Figure 1: Tariff analysis SADC



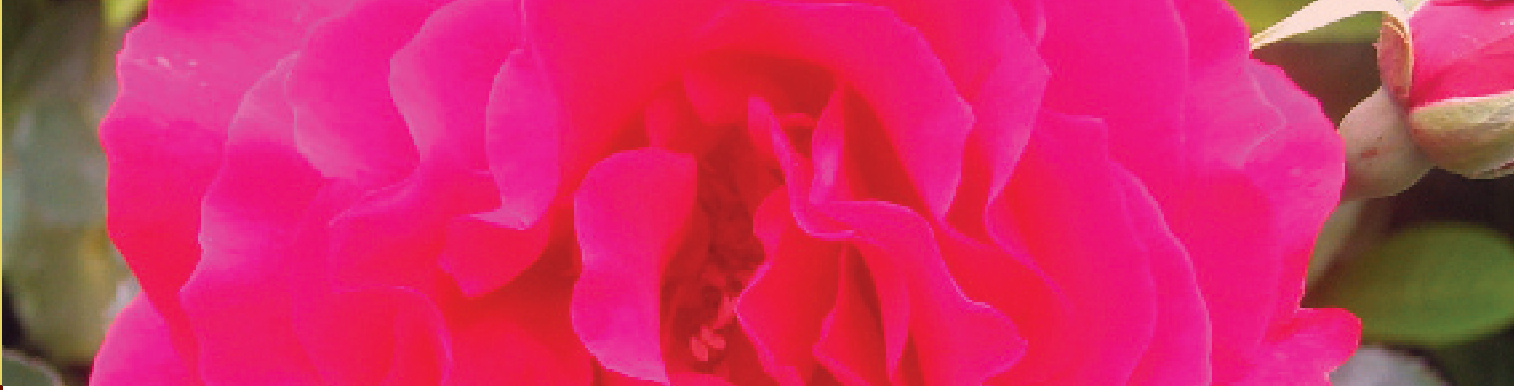
Source: Constructed from Table 17

A number of transitional corporations closed their production lines in Zambia in preference to supply the same products from neighbouring countries in the wake of the country's simultaneous liberalisation of the current and capital accounts. As Table 18 indicates, the bulk of the imported commodities are manufactured final consumer goods whose average tariff ranges from 20% to 24%. These commodities comprise of footwear, mineral fuels, edible vegetables, textile articles, coffee, tea, spices, etc.

Table 18: Tariff Analysis SADC by Industries

HS 2 Code	Description	Average Tariff	Imports from SADC (US$ '000)	Total Imports (US$ '000)
64	Footwear	24%	484	7,929
36	Explosives	23%	417	10,128
62	Apparel articles and accessories	21%	426	6,485
61	Apparel articles and accessories	19%	641	4,260
09	Coffee, tea, mate & spices	19%	953	2,281
63	Textile articles NESOI	18%	7,726	26,037
27	Mineral fuels & oils	17%	23,567	80,533
07	Edible vegetables	17%	5,738	24,312
21	Misc. edible preparations	17%	1,262	6,913
58	Spec wov fabrics	16%	14	540

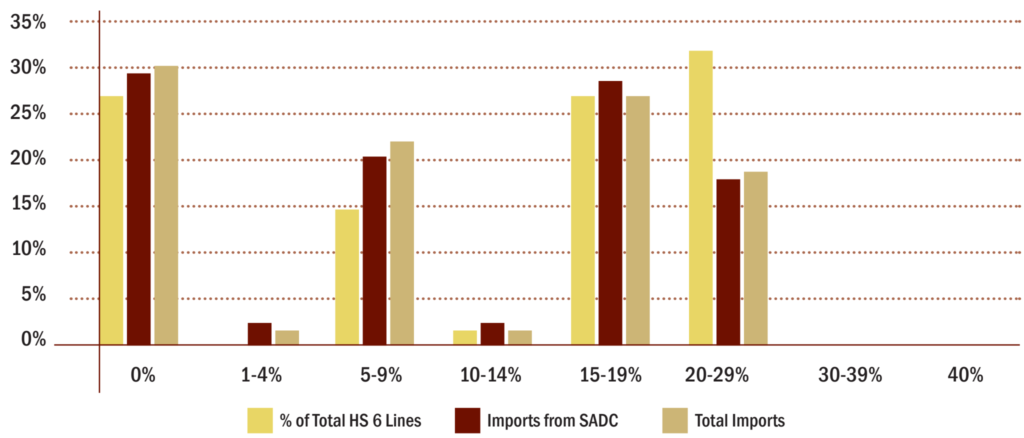
Zambia's zero rated import tariff lines with SACU which is dominated by SA stand at 29% of total SADC imports with respect to raw materials and productive machinery and 46% (tariff lines between 15% to 9%) as regards final goods as reflected in Table 19 and Figure 2. SACU has more import tariff lines in comparison to world import tariff schedule, even though the size of imports from the world is larger. Table 20 shows that the maximum average tariff rate stood at 24%, as regards the nature of commodities/industries with high tariff rates. As before, the goods which attract the highest tariffs are consumer goods.



As was the case with respect to SADC tariffs analysis, a number of these products, like footwear, textiles, furniture, dairy products, coffee, etc., attracted the highest tariff rate.

The country has a sizeable industrial base in the production of these goods and one can infer some element of protection in the tariff rates. The highest average tariff rate is for footwear, although the magnitude of total imports is small at slightly below US$ 3 million for SACU, this represent 35% of the country's total footwear imports. Imports of textiles articles not elsewhere included are the highest with a total of US$26 million with an average tariff rate of 21%, however, SACU imports are much lower are 21% of total imports because these imports are dominated by second hand clothing from Western Europe. Getting back to an examination of tariffs with SADC and SACU, one could conclude that tariff rates and lines tend to be lower for SADC compared to SACU with respect to manufactured goods.

Figure 2: Tariff analysis SACU



Source: Constructed from Table 19

Table 20: Tariff Analysis SACU by Industries

HS 2 Code	Description	Average Tariff	Imports from SACU (US$ '000)	Total Imports (US$ '000)
64	Footwear	23.6%	2,752	7,929
62	Apparel articles and accessories	22.9%	3,468	6,485
61	Apparel articles and accessories	22.1%	1,382	4,260
63	Textile articles NESOI	20.8%	5,475	26,037
94	Furniture & bedding	20.7%	5,907	13,928
04	Dairy prods; birds eggs; honey;	20.7%	2,375	3,271
16	Edible preps of meat, fish	20.5%	490	561
09	Coffee, tea, mate & spices	20.3%	1,293	2,281
96	Misc. manufactured articles	20.3%	204	361

5. Trade agreements planned and in force

Table 21: Summary of Trade Agreements

Trade Protocol/Agreement	Objective	Strategy	Status
African Growth Opportunity Act (AGOA)	Promote stable and sustainable economic growth and development in sub-Saharan Africa	Encouraging increase trade and investment , reducing tariff and non tariff barriers, and other obstacles to trade, supporting Africa's regional integration efforts, etc.	In force
African Caribbean and Pacific States-European Union (ACP-EU) Cooperation-Lome Convention-Cotonou Agreement-Economic Partnership Agreements-EU Sugar ProtocolSpecial and Differential Sugar Arrangement	Enhance development in the ACP states-Protect the industrial base of ACP states. ACP to play a full role in international trade to ensure sustained economic development and poverty eradication.	No customs duty and quantitative restriction on ACP agricultural and manufactured goods not in direct competition with goods covered in the Common Agricultural Policy entering the EU.Non-reciprocal trade preferences on selected goods from the ACP states entering the EU market.Reciprocal trade preferences on selected goods from the ACP states entering the EU market.Zero quota for export of refined with 99.5% polarity.Annual allocation of quotas based deficits of exporters.	Succeeded by the Contonou Agreement.Planned to succeed Contonou.In forceIn force
World Trade Organisation (WTO)General Agreement on Tariffs and Trade (GATT)General Agreement on Trade in Services (GATS)Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)	Create a liberal and open trading system for member countries under conditions of fair and undistorted competition.	Member countries to adopt national legislation and regulations to implement the rules.	GATT in force and others planned
African Unity (AU)	Market integration	Improved market access to the G8 countries	In force
Bi-lateral agreement with Congo DR	Facilitate free bilateral trade		Planned
Bi-lateral agreement with Malawi	Facilitate free bilateral trade	No restrictions	In force
Bi-lateral agreement with Tanzania	Facilitate free bilateral trade	No restrictions	In force
Bi-lateral agreement with Zimbabwe	Facilitate free bilateral trade	No restrictions	In force
Bi-lateral agreement with Namibia	Facilitate free bilateral trade	Agree on a schedule of commodities	In force
Common Market for Eastern and Southern African States (COMESA)	Integrating national economies in Eastern and Southern Africa.	Implementation of tariff reductions based on the PTA timetable.	In force
General System of Preferences (GSP)-Canadian Initiative-Everything But Arms (EBA) Initiative	Provide preferential access for products from developing countries by industrial countries.	Non-reciprocal trade offers through WTODuty free and quota free access for selected goods into the Canadian market.Duty and quota free access by goods from least developed countries to enter the EU, except fresh bananas, rice, sugar, arms and ammunitions.	In forceIn force.In force.
New Partnership for Africa's Development (NEPAD)	Eradicate poverty, place Africa on a path of sustainable growth and development, and enhance full and beneficial integration of Africa in the global economy.	Holistic, comprehensive and integrated sustainable development initiative.	In force
Southern Africa Development Community (SADC)	Promotion of regional integration and eradication of poverty.	Implementation of Regional Indicative Strategic Development Plan and protocols on Shared Watercourse systems, Wildlife Conservation and Law Enforcement, Fisheries, Energy, and Mining	In force outside the protocol on Shared Watercourse Systems

Zambia is a signatory to several trade protocols/agreements with little or no consideration of the impact of such protocols/agreements on the economy, or more specifically on ensuring sustained economic recovery, poverty reduction and the achievement of the millennium development goals. Table 21 details the various trade regimes in which the country entered into or is planning to enter into which range from the Africa Growth Opportunity Act, through the African Caribbean and Pacific states-European Union Cooperation, SADC and COMESA to the World Trade Organisation. With the exception of the potential that increased trade with SADC outside of South Africa holds for the country, empirical evidence clearly demonstrates that Zambia will derive little or no benefits from the other trade protocols, yet the country has assumed a led role in trade liberalisation at its own peril. What this means is that the Zambian authorities need to take a more cautious approach to regional and international trade to ensure that it maximises its benefits from trade.

6. Revealed comparative advantage

Zambia's revealed comparative advantage lies in both its traditional and non-traditional exports, largely in the commodities in which the country posses natural endowment and their derivatives. As Table 22 indicates, these commodities comprise of base metals, copper and articles thereof, agri-manufactured goods such as sugar, semi processed agri-products such as cotton, oil seed, etc. This is somewhat surprising as the country has traditionally been seen as a source of raw materials for the developed world.

This comparative advantage has not been realised to the full due to protection tendencies of the developed world, particularly in products where they do hold comparative advantage and reducing tariff in miscellaneous artefacts or commodities in which the developing world do not have comparative. Despite the comparative advantage in those industries, production remains small. Therefore, there is a need to increase investment in product lines in which the country has comparative advantage.

Table 23 shows commodities in which the country does not have comparative advantage to produce in relation to the world. These commodities are largely in manufactured goods complimentary to the country either due to lack of industries in the production of those commodities or lack of technology or the raw materials required to produce the commodities.

These products are wood pulp, cork, gums, ships, boats, musical instruments, arms, ammunitions, toys, etc. as well as agricultural products not produced in the country such as cocoa and products thereof. Although there are no surprising items on the list, it is indicative of commodities which could be developed for production domestically. As a least developed country, Zambia should not only focus in areas were it has comparative advantage but also in areas were it has potential comparative advantage, bearing in mind the high levels of protection in industrial industries and the use of non tariff barriers to trade, including access to technology.

Table 22: Revealed Comparative Advantage with respect to the World: Top 20 Commodities (HS2)

HS code	Product	Exports 2003 (US$ '000s)	Index Value
81	Base metals NESOI; cermets; articles thereof	130,805	171.0
74	Copper and articles thereof	501,029	77.8
6	Live trees, plants, bulbs etc.; cut flowers etc.	14,267	30.4
17	Sugars and sugar confectionary	33,294	27.2
52	Cotton, including yarn and woven fabric thereof	47,872	18.4
24	Tobacco and manufactured tobacco substitutes	18,141	18.0
7	Edible vegetables & certain roots & tubers	11,147	10.2
9	Coffee, tea, mate & spices	10,078	9.3
11	Milling products; malt; starch; inulin; wht gluten	5,060	4.5
79	Zinc and articles thereof	469	2.7
36	Explosives; pyrotechnics; matches; pyro alloys etc	943	2.5
26	Ores, slag and ash	11,873	1.9
71	Nat etc pearls, prec etc stones, pr met etc; coin	70,321	1.6
41	Raw hides and skins (no furskins) and leather	2,693	1.5
12	Oil seeds etc.; misc grain, seed, fruit, plant etc	3,326	1.3
25	Salt; sulphur; earth & stone; lime & cement plaster	9,404	0.4
4	Dairy prods; birds eggs; honey; ed animal pr NESOI	839	0.4
46	Mfr of straw, esparto etc.; basketware & wickerwrk	57	0.3
10	Cereals	6,668	0.3
67	Prep feathers, down etc; artif flowers; h hair art	152	0.2

7. Revealed trade barriers

As regards revealed trade barriers against Zambia with respect to export of commodities imposed by other SADC countries, Table 24 portrays that the trade barriers are low apart from three HS codes, copper and articles thereof, stands out at 111%, this is followed by base metals at 40% and cotton, including yarn and woven fabrics at 17%. This reflects low or no barriers in relation to those commodities. However, for the majority of the commodities such as tobacco, sugar, cereals, printed books, etc, other SADC countries impose significant trade barriers. This is in line with the previous discussion where it was noted that Zambia moved fast in trade liberalisation and removal of tariffs which has tended to work negatively for the country's industrial devel-

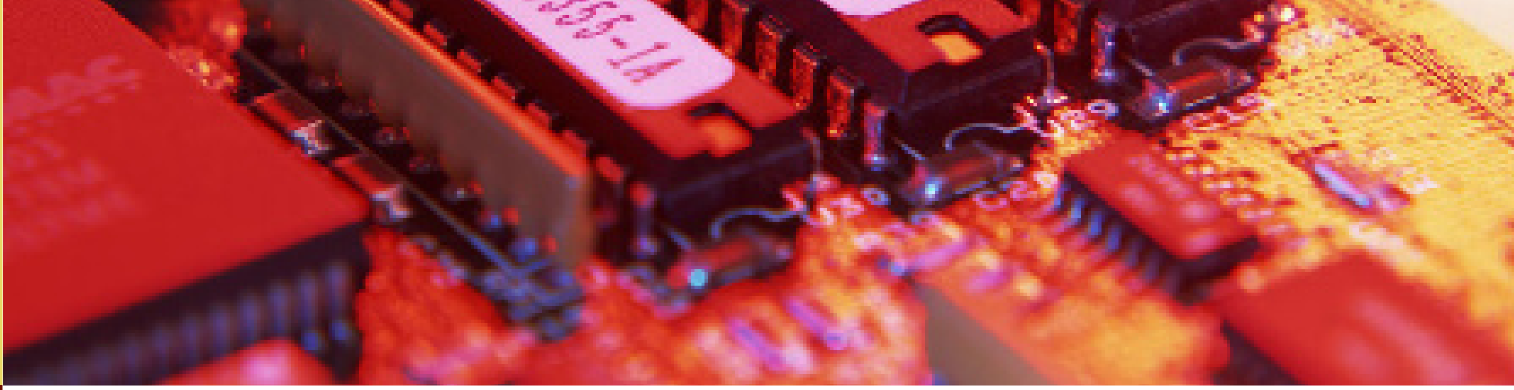


Table 23: Revealed Comparative Advantage with respect to the World: Bottom 20 Commodities (HS2)

HS code	Product	Exports 2003 (US$ '000s)	Index Value
13	Lac; gums, resins & other vegetable sap & extract	3	0.0
45	Cork and articles of cork	1	0.0
47	Wood pulp etc; recovd (waste & scrap) ppr & pprbd	56	0.0
50	Silk, including yarns and woven fabric thereof	-	0.0
80	Tin and articles thereof	27	0.0
89	Ships, boats and floating structures	-	0.0
35	Albuminoidal subst; modified starch; glue; enzymes	19	0.0
57	Carpets and other textile floor coverings	1	0.0
66	Umbrellas, walking-sticks, riding-crops etc, parts	6	0.0
93	Arms and ammunition; parts and accessories thereof	4	0.0
92	Musical instruments; parts and accessories thereof	0	0.0
65	Headgear and parts thereof	2	0.0
51	Wool & animal hair, including yarn & woven fabric	2	0.0
18	Cocoa and cocoa preparations	1	0.0
14	Vegetable plaiting materials & products NESOI	-	0.0
95	Toys, games & sport equipment; parts & accessories	19	0.0
70	Glass and glassware	4	0.0
61	Apparel articles and accessories, knit or crochet	38	0.0
56	Wadding, felt etc; sp yarn; twine, ropes etc.	93	0.0
96	Miscellaneous manufactured articles	136	0.0

opment in the short-term. A case in point here is Zambia's zero rating of printed matter when printed matter from Zambia attract high tariff in other SADC countries. This means that other SADC countries continue to protect their industries against Zambia products instead of taking advantage of both the comparative advantage and easy access of SADC states of importing these products from Zambia.

There are several goods not imported from the country by the SADC group as reflected by the zero entries in Table 25. As has been seen already, this is not as a consequence of no barriers to trade but rather lack of production of those commodities as a result of either lack of technology or lack of the natural resource endowment in the good. Closely related to the technology problem is product quality. In order to enhance the competitiveness of Zambian goods on the regional market, concerted effort should be put in improving product quality.

Table 24: Revealed Trade Barriers with respect to SADC: Top 20 Commodities (HS2)

HS code	Product	Exports to SADC 2003 (US$ '000s)	Index Value
74	Copper and articles thereof	123,177	110.6
81	Base metals NESOI; cermets; articles thereof	70	39.6
52	Cotton, including yarn and woven fabric thereof	5,310	17.1
24	Tobacco and manufactured tobacco substitutes	12,329	9.9
17	Sugars and sugar confectionary	1,162	9.8
78	Lead and articles thereof	309	8.3
11	Milling products; malt; starch; inulin; wht gluten	3,936	7.9
36	Explosives; pyrotechnics; matches; pyro alloys etc	628	6.5
9	Coffee, tea, mate & spices	65	4.3
79	Zinc and articles thereof	51	2.9
10	Cereals	5,474	2.7
21	Miscellaneous edible preparations	1,717	2.5
25	Salt; sulphur; earth & stone; lime & cement plaster	1,604	2.4
12	Oil seeds etc.; misc grain, seed, fruit, plant etc	494	2.0
26	Ores, slag and ash	8	1.8
71	Nat etc pearls, prec etc stones, pr met etc; coin	296	1.6
49	Printed books, newspapers etc; manuscripts etc	23	1.2
23	Food industry residues & waste; prep animal feed	225	1.1
6	Live trees, plants, bulbs etc.; cut flowers etc.	27	0.9
76	Aluminium and articles thereof	127	0.9

Tab le 25: Revealed Trade Barriers with respect to SADC: Bottom 20 Commodities (HS2)

HS code	Product	Exports to SADC 2003 (US$ '000s)	Index Value
29	Organic chemicals	41	0.0
70	Glass and glassware	3	0.0
14	Vegetable plaiting materials & products NESOI	-	0.0
8	Edible fruit & nuts; citrus fruit or melon peel	1	0.0
95	Toys, games & sport equipment; parts & accessories	4	0.0
93	Arms and ammunition; parts and accessories thereof	1	0.0
43	Furskins and artificial fur; manufactures thereof	-	0.0
57	Carpets and other textile floor coverings	0	0.0
66	Umbrellas, walking-sticks, riding-crops etc, parts	0	0.0
42	Leather art; saddlery etc; handbags etc; gut art	1	0.0
92	Musical instruments; parts and accessories thereof	-	0.0
60	Knitted or crocheted fabrics	-	0.0
91	Clocks and watches and parts thereof	-	0.0
16	Edible preparations of meat, fish, crustaceans etc	-	0.0
18	Cocoa and cocoa preparations	-	0.0
50	Silk, including yarns and woven fabric thereof	-	0.0
51	Wool & animal hair, including yarn & woven fabric	-	0.0
80	Tin and articles thereof	-	0.0
88	Aircraft, spacecraft, and parts thereof	-	0.0
89	Ships, boats and floating structures	-	0.0