Zambia

1. Introduction

Commencing in the 1970s, the Zambian economy experienced two decades of economic decline. The economy's growth rate averaged at 1.5% per annum during that decade and then dropped to an annual average of 1.2% in the 1980s and 0.3% in the 1990s. After Mozambique, a country which was at civil war at the time, the Zambian economy's performance in the 1980s and 1990s was the lowest within the SADC region. The poor performance of the economy during these decades can be explained by the huge external debt that averaged more than 280% of GDP and the inability of government to maintain investment in its wholly owned copper industry. The declining terms of trade for commodity producers exacerbated the problem for Zambia (Ministry of Finance and National Planning, 2006).

Zambia's weak economic performance led the government to adopt a structural adjustment programme in 1991 under the auspices of the International Monetary Fund (IMF) and the World Bank. The reforms rested on three policy pillars: the removal of subsidies, economic liberalisation and stabilisation and the privatisation of state-owned enterprises. In addition, the exchange rate, prices and interest rates were determined by the market.

As a result of the reforms and increasing commodity prices, Zambia qualified for debt cancellation, which reduced its external debt from 193% of GDP in 2000 to 126.7% in 2004. In 2006, Zambia's external stock stood at 8.8% of GDP.

Table 1: Selected macroeconomic indicators: 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Real GDP (%)	3.7	4.9	3.3	5.1	5.4	5	5.8
Inflation recorded at year-end (in %)	30.1	18.8	26.7	17.2	17.5	15.9	8.2
Fiscal balance (% GDP)		-8	-6.3	-6.6	-1.7	-2.6	-2.8
External debt (% GDP)	193	199.7	171.8	151.6	126.7	86.0	8.8
Foreign direct investment (% GDP)	3.8	2	8	8	6.7	6.6	
Average exchange rate (Kwacha to US$)	3,111	3,608	4,307	4,743	4,772	4,464	4,128
Terms of trade* (% change)	-4.3	-1.3	-7.3	4.4	21.4	5.5	8
Prime lending rate (annual average %)	39	46	45	41	31	28	22
Domestic credit to government (US$m)	434	496	405	25	23	52	
Domestic credit to private sector (US$m)	363	340	219	256	260	472	
Capital account of balance of payments (BOP) (US$m)	153	222	236	240	239	2,080	2,600

* Refers to barter terms of trade. The barter terms of trade are calculated as the ratio of the export price index to the corresponding import price measured relative to the base year 2000.

Source: Central Statistics Office, Bank of Zambia, International Monetary Fund

Following the introduction of the aforementioned initiatives and favourable global economic trends, Zambia registered positive economic growth rates, averaging at 4.5% per annum, for 1999-2005. The growth rate improved, as shown in Table 1, from 3.3% in 2002 to 5.2% in 2005 then rose further to 5.8% in 2006. Economic growth was driven by favourable performances in most sectors, such as in the mining sector which experienced rising copper prices, by increased production, such as in the manufacturing, construction, transport and communications sectors, and by growing trade.

The inflation rate, though, remained high, driven by soaring oil prices, although it declined from 18.7% in 2001 to 15.9% in 2005.

Zambia's currency is the Kwacha (K). The exchange rate, which stood at K3,800 to the US dollar, depreciated to K4,307 in 2002 before appreciating rapidly to K3,400 in 2005, mainly due to increased capital inflows.

Huge investments in old and new mines, as well as in other service sectors following improved macroeconomic stability, accounted for those increased capital inflows. Following attainment of the Heavily Indebted Poor Country (HIPC) completion point[1] and in combination with high interest rates, Zambia succeeded in attracting foreign direct investment into its governmental securities and bonds.

1.1. Changes in trade and industrial policies

Zambia has a highly open trade regime in Africa.[2] Zambia's 1991 trade reforms reduced significantly its import duties, repealed import and export licences, export bans and taxes, moved its trade to a market-determined exchange rate and introduced a package of incentives to exporters. These policies continued throughout the review period.

In addition to those reforms, the country committed itself to further liberalisation under the regional programmes in which it participated. For instance, Zambia had traded on a quota- and duty-free basis with 14 other members of the COMESA free trade area. The country was also a member of the SADC FTA. Between 2000 and 2005, the country acquired new, preferential market access provisions under the US' AGOA and the EU's EBA initiative. These regional and international arrangements boosted Zambia's exportation of non-traditional exports.

[1] The HIPC initiative was launched in 1996 to assist heavily indebted poor countries reduce external debt to sustainable levels by following strict policy conditions. Zambia attained completion point in 2005 and became eligible for debt relief without further policy conditions.

[2] The trade regime has a rating of two on the International Monetary Fund's restrictiveness scale. The scale ranges from zero to 10, with 10 being the most restrictive trade regime (Ministry of Commerce, Trade and Industry, 2005).

1.1.1. Drivers of trade performance

In addition to these regional and international commitments, Zambia introduced a number of policies aimed at promoting its non-traditional exports (NTEs). The Diagnostic Trade Integration Study (Ministry of Commerce, Trade and Industry, 2005) pointed out that specific drivers of Zambia's trade performance were associated with export diversification. These included a trade-enhancing, liberalisation tariff structure, a duty drawback system, an export processing zone programme and the removal of the bond scheme. Each of these is discussed briefly below.

Trade liberalisation

In 1991, Zambia autonomously liberalised trade. As a policy measure to promote exports, the Zambian government liberalised the capital and current accounts and restructured its tariff structure. These policies had a mixed impact on the overall trends of Zambian trade. Despite the negative effects that have been associated with liberalisation, such as the collapse of the manufacturing industries, the country's trade has more than doubled over the period (see Table 4). The main trade policy instrument affecting imports was tariffs. The tariff structure was influenced considerably by Zambia's affiliations to the multilateral and regional trade arrangements. Zambia is a signatory to the COMESA treaty, to the SADC Protocol[3] and to the Cotonou Agreement with the EU. In addition, Zambia is also a member of the WTO.

Generally, Zambia applied *ad valorem* tariffs on most of the imports that entered the country. Following the liberalisation of trade, Zambia reduced its tariff on agricultural and non-agricultural goods. Although the country bound tariffs at 125% during the Uruguay Round, the applied and bound Most Favoured Nation (MFN) tariffs ranged from zero to 25%, as is reflected in Tables 2 and 3.

In turn, whilst the bound rates in agricultural products were higher than those for non-agricultural products, the tariff structure was simple The average MFN applied tariff rate was 13.4% with a coefficient of variation of 0.7%. The zero percent tariff rate was applied mainly on raw materials and intermediate goods while the 25% band was applied to finished products.

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[3] The ultimate objective of both the COMESA and the SADC is to create a free trade area and eventually a customs union.

Table 2: Average MFN applied and bound tariffs for agricultural products, 2007

	Applied tariff	Bound tariff
Fruit and vegetables	23.6	125
Coffee, tea, mate, cocoa and preparations	22.9	94.2
Sugars and sugar confectionery	23.8	125
Spices, cereal and other food preparations	20.5	125
Grains	5	100
Animals and products thereof	21.3	125
Oil seeds, fats and oils and their products	14.8	125
Cut flowers, plants, vegetable materials	9.4	125
Beverages and spirits	24	125
Dairy products	22.5	125
Tobacco	21.7	125
Other agricultural products	12.9	125

Source: WTO World Trade Reports (2005: 316)

Table 3: Average MFN applied and bound tariffs for non-agricultural products, 2007

	Applied duty	Bound duty	Bound duty coverage %
Wood, pulp paper and furniture	17.2	40	4
Textiles and clothing	18.9	40	0
Leather, rubber, footwear, travel goods	17.4	40	13
Metals	10.4	40	1
Chemicals and photographic supplies	7.7	45	1
Transport equipment	10.8	40	5
Non-electrical machinery	8.1	44.8	20
Electrical machinery	14.8	-	-
Mineral products, precious stones, metals	12.4	35	7
Manufacturing articles not elsewhere specified	17.5		-
Fish and fish products	22.9	-	-
Petroleum	11.4	-	-

Source: WTO World Trade Reports (2005: 326)

The Zambian government also liberalised the foreign exchange markets. Investors were allowed to repatriate profits while export and import bans, except for those imposed on illegal substances, were removed.

Duty drawback system

The duty drawback system was an export promotion strategy that reimbursed exporters for the customs duties and other taxes that they had paid on imported inputs. It was meant to give producers access to inputs at world prices. An exporter had to first register with the Zambia Revenue Authority (ZRA). Once registered, the exporter calculated the input-output coefficients, showing the total duties paid to produce a unit of final output. The import duties were paid to the ZRA upon importation of the inputs. Once the firm exported a finished product, it submitted a claim to the ZRA for reimbursement of the total duties it estimated it had paid on all inputs used to produce that shipment. The claim was reviewed and reimbursement given once the ZRA was satisfied with the application.

Exporting firms were also allowed to claim refunds for a portion of their expenditure on domestically produced inputs. The duty drawback provision attempted to compensate exporters for the higher domestic prices they paid for locally sourced goods.

This facility became increasingly unpopular because most of the country's inputs were imported from sources within the region – sources which enjoyed free market access into Zambia. The duty drawback programme promoted the export of non-traditional exports (NTEs) which, by definition, were all exports excluding base metals, such as copper and cobalt, and locally produced goods made artificially competitive in international markets.

Export processing zone programme

The export processing zone programme was another initiative that the Zambian government adopted in 2001. The EPZ Act of November 2001 established the Zambia Export Processing Zone Authority (ZEPZA). Although the ZEPZA was operational in January 2003, the Cabinet suspended the EPZ programme in order to review its revenue impact.

The programme was implemented under the Zambia Development Agency Act's Multi Facility Economic Zones (MFEZ). Under the MFEZ scheme, operators, developers and tenants benefited from a number of fiscal and non-fiscal incentives.

Expected to operate like industrial parks, the MFEZ provided incentives that included tax holidays for the first 10 years and relief on import duties of all imported raw materials and intermediate and capital goods. However, only firms with a minimum investment of US$500,000 were eligible to benefit from these incentives.

Removal in bond

Zambia operated a bond system, known as the removal in bond programme. Under the programme, a company was permitted to place newly imported products into a bonded warehouse and pay customs duties only once those products were removed from bond. This delayed the payment of customs duties until the point when the imported product was used.

2. Trade performance

Zambia's trade regime was liberalised in 1991. At the same time, the country relaxed the exchange rates regime to cushion the economy from the trade liberalisation process. The trade policy reforms included the progressive removal of quantitative restrictions and substantial reduction in the tariff rates. The rationale for the liberalisation of trade was that it would stimulate efficiency in the economy and promote exports. Alongside those reforms, the country engaged in regional and multilateral trade negotiations to promote private sector exports. It was envisaged that trade would promote economic growth and help to improve the standards of living through enhanced competitiveness and widened market access opportunities. While the growth in exports for 1991-1999 remained sluggish, the trend changed somewhat in the early 2000s. Table 4 shows the performance of Zambia's exports and imports for 2000-2005.

Table 4: Overview of trade flows (2000-2005) US$m

	2000	2001	2002	2003	2004	2005	Growth 00-05
Total exports	853	980	894	981	1,717	1,840	16.6
Total imports	864	1,080	1,095	1,572	2,337	2,565	24.3
Trade balance	-11	-101	-201	-591	-619	-726	-
Exports to SADC	248	286	316	431	840	731	24.1
Imports from SADC	594	731	726	1,041	1,305	1,467	19.8
Trade balance with SADC	-346	-444	-410	-610	-466	-736	-
Exports to South Africa	167	217	198	211	427	342	15.5
Imports from South Africa	481	603	597	766	1,082	1,220	20.5
Trade balance with South Africa	-314	-386	-399	-555	-655	-878	-

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database and Central Statistics Office

Zambia experienced rapid growth of both imports and exports over the early 2000s. Total export earnings grew by 16.6% per annum compared to the annual 24.3% growth rate in total import expenditure. The increase in the import bill was primarily due to high investment activities in the country's new and existing mines, which were accompanied by an increased importation of capital equipment and a rise in the price of oil on the world market. Increased domestic demand for imports was also reinforced by the strengthening of the Kwacha against the world's major currencies.

Similarly, exports grew rapidly, more than doubling over 2000-2005 and increasing from US$853-million in 2000 to US$1.8-billion in 2005. The improved performance of NTEs and mineral products accounted for the increase in growth in exports.

Generally, the country experienced improved terms of trade. Higher copper prices and stimulated investment in the sector, principally due

to increased demand in China, were responsible for the rapid growth in the value of Zambia's copper exports. Overall, Zambia remained a net importer with a trade balance deficit increasing from US$11m in 2000 to US$726m in 2005.

For the period under review, Zambia's exports to the SADC region grew by 24.1%, compared to its imports expenditure that grew by 19.8%. Most of the trade to the SADC was with South Africa. For the review period, exports to South Africa grew at an average of 15.5% per annum, although, as shown in Table 5, imports grew at a faster rate of 20.5% per year. South Africa was Zambia's main source of industrial equipment and other manufactures, especially for processed foods and fruits. South Africa was also Zambia's main destination for most of its NTEs.

2.1. Trade by region

Following trade liberalisation in 1991, Zambia engaged in securing and assuring market access via various regional and multilateral negotiations. Table 5 shows its exports and imports as segmented by region for 2005.

Table 5: Trade by region: 2005

Region	Exports (US$m	Share of exports to total exports (%)	Imports (US$m)	Share of imports to total imports (%)
Americas	14.9	0.81	68.4	2.67
Asia	104.5	5.68	362.6	14.14
EU	443.7	24.12	575.2	22.42
Oceania	1.6	0.09	27.7,	1.08
SADC	730.7	39.72	1,466.5	57.17
Mercosur	0.9	0.00	7.5	0.29
Rest of Europe	528.1	28.71	17.5	0.68
Other regions	16.1	0.87	39.9	1.55
Total		100		100

Source: TIPS/AusAID Southern African Trade Database and Central Statistics Office

In 2005, the SADC region was the main destination for Zambia's exports, absorbing 39.7% of all of Zambia's exports. Compared to previous years, the share of Zambia's exports to the SADC region declined in 2005, principally because the country increased its exports of minerals to the rest of Europe and Asia. South Africa, the DRC and Zimbabwe were all key export markets for Zambian goods within the SADC region. The rest of Europe, which absorbed 28.7% of all Zambian exports, and the EU, to which 24% of all exports were destined, were two important export destinations. Zambia's main trading partners in the EU were the United Kingdom, Portugal, Germany, the Netherlands, Finland, Italy and Spain, while Switzerland was the main destination for Zambian exports in the rest of Europe.

In 2005, Asia, to which Zambia exported 5.68% of its exports, was another important export destination. Other regions, such as Oceania and the Americas (primarily accounted for by the US), were minor importers of Zambian goods. The country did not export products to the Mercosur region.

Zambia's trade arrangements and the market access it enjoyed in the SADC region, under the SADC Trade Protocol, and to the EU, under the EBA initiative and the ACP Cotonou Agreement, influenced the regional distribution pattern of trade reflected in Table 5.

On the imports side, Zambia sourced more than half of its imports from within the SADC region, particularly from South Africa. As indicated by Tables 4 and 5, Zambia recorded a trade deficit with the SADC for the review period.

The EU, accounting for 22.4% of the total imports into Zambia, followed by Asia with a 14% share, were the second and third largest markets from which the country sourced its imports.

Meanwhile, only 2.67% of all imports were imported from the Americas, 1.1% from Oceania, 0.68% from the rest of Europe, 0.29% from Mercosur and 1.55% from the other regions.

Once again, Zambia's trade arrangements and market access influenced the flow of its imports in 2005 and in all these regional arrangements, there were key trading partners. Those partners are listed in Table 6.

2.2. Trade by partner countries

Overall, Zambia's exports earnings for 2000-2005 grew by 16.6% per annum, increasing from $852.5m in 2000 to US$1,839.6 m, with the largest share of export earnings for 2005 coming from Switzerland. Zambia's exports to Switzerland more than trebled from US$99m in 2002 to US$527.9m in 2005, amounting to a share of 28.7% of its total exports and with an average growth rate of 39.7%. Zambia exported to Switzerland mainly traditional exports, such as refined copper cathodes, ores and cobalt, and NTEs such as cotton yarn.

South Africa was the second largest destination for Zambian exports. Exports to South Africa, equivalent to a 18.6% share of total exports in 2005, increased from US$166.8m to US$342.4m, representing an average annual growth rate of 15.5% for the period. Unlike other markets to which Zambia exported a limited range of products, South Africa absorbed a wide variety of goods including, for example, copper cathodes, engineering manufactures of mainly copper cable and electric conductors, cotton, processed foods, vegetables and other horticultural products.

The volume of trade sent from Zambia to South Africa could be explained by high industrial activity in South Africa, the short distance between the two countries and the preferential market access which, via the SADC Trade Protocol, allowed Zambia to export a wide range of products on a duty and quota free basis to that partner country. Zambia also exported a range of products, such as cotton, to the US under the AGOA through a third-country arrangement with South Africa.

The UK was ranked third on the list of Zambia's top export destinations. Zambia's export earnings from that partner declined from US$387.7m in 2000 to US$265m in 2005 but the UK imported 14.4% of its total exports. As a former British colony, Zambia's trade relations with the UK dates back to the colonial period. Its exports to the UK included copper cathodes, processed foods, floricultural and horticultural products and precious stones.

Four other SADC countries, namely the DRC, Tanzania, Zimbabwe and Malawi, were on the list of Zambia's top export destinations. The growth in trade to these countries averaged at 22%, 76%, 34% and 32% per annum, respectively.

Exports to the DRC were driven principally by the huge volume of processed foods, such as maize, sugar, vegetables and building materials (like cement); and manufactures, like copper wires, which were imported by the Congolese to meet the food deficit and the demand for reconstruction materials required by its mining sector.

Tanzania was increasingly a destination market for Zambia's copper cathodes and its engineering products, like copper and telecommunications wires, used mainly for its booming mining industry. Exports to Zimbabwe, which consisted mainly of foodstuffs, groceries and tobacco, were driven by the economic slump and reduced production experienced in that country. Over the last five years, Zambia's exports to Zimbabwe increased rapidly in both range and value as that country's production base almost came to a halt.

Table 6 Exports by partner country, 2000-2005

Zambian Exports		Value (US$m)		Growth	% share
		2000	2005	2000-05	2005
#	World	852.5	1,839.6	16.6	100.0
1	Switzerland	99.1	527.9	39.7	28.7
2	South Africa	166.8	342.4	15.5	18.6
3	UK	387.7	265.6	-7.3	14.4
4	DRC	37.1	99.0	21.7	5.4
5	Tanzania	5.5	94.3	76.8	5.1
6	Zimabawe	17.1	76.2	34.8	4.1
7	Malawi	15.6	63.4	32.3	3.4
8	The Netherlands	18.4	46.6	20.4	2.5
9	France	0.1	46.0	226.9	2.5
10	Botswana	3.1	42.1	68.7	2.3
11	China	0.0	39.1	310.9	2.1
12	Belgium	34.4	31.9	-1.5	1.7
13	Japan	0.3	30.2	149.3	1.6
14	Potugal	5.7	28.2	37.7	1.5
15	India	8.4	25.8	25.1	1.4
16	US	6.2	14.3	18.3	0.8
17	Kenya	4.3	13.8	26.1	0.8
18	Germany	16.7	12.7	-5.4	0.7
19	Nambia	1.9	8.8	35.7	0.5
20	Italy	2.0	6.5	26.7	0.4
Selected countries					
24	Mauritius	0.4	1.5	31.7	0.1
29	Swaziland	0.2	0.9	35.8	0.1
31	Mozambique	0.2	0.8	31.9	0.0
32	Lesotho	0.0	0.7	79.0	0.0
33	Angola	0.4	0.6	9.0	0.0
	Concentration index	0.26	0.15	-8.53	

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database

Apart from the UK, Zambia exported to several EU countries such as France, Belgium, Portugal, Italy and Germany. Exports sent there were mainly of copper cathodes as well as NTEs such as sugar and horticultural and floricultural products.

China, Japan and India were the main destinations for Zambian exports in Asia. The rapid growth of the Chinese economy accounted for the increased exports of raw materials, copper cathodes and precious metals. India imported Zambian gems while Japan imported Zambian copper and cobalt resources for its high-technology industry.

2.3. Imports by partner country

Zambia's total import bill in 2005 grew by 24.3%, increasing from \$863.5m in 2000 to \$2.6bn in 2005.

South Africa was the main source of Zambian imports, accounting for almost half (47.6%) of its total imports and recording growth at an average of 20.5% over the period. Generally, the growth was driven by South Africa's competitive advantage in production, its capacity to export a range of products and the increased investment undertaken by South African companies into the Zambian economy. South Africa supplied Zambia with an array of products ranging from basic foodstuffs through to heavy industrial equipment. Barloworld, among other South African firms, was a key supplier of heavy equipment required by the Zambian mining industry. The importation of basic manufactures and processed food stuffs was facilitated by the presence of South African retailers, Shoprite-Checkers, Game and Spur, which have increased their reach in recent years. It is expected that South Africa will continue to be, for the foreseeable future, a major supplier of Zambia's capital goods.

During the review period, the UK was the second largest source of Zambian imports. The import bill grew by an average of 34% per annum, increasing from US\$74m in 2000 to US\$322.7m in 2005. Banknotes and manufactures dominated the list of imports sourced from the UK.

As is shown in Table 7, in addition to South Africa and the UK, several countries contributed to Zambia's import bill. Zimbabwe had a share of 4.3% although its bill grew slowly at 10.6% per annum compared to Australia, whose bill grew at 82.9% but whose share of 1.1% was very small.

The fourth largest exporter to Zambia was the United Arab Emirates (UAE) from which oil was imported. The 55% growth in those imports could be accounted for by the high demand for oil among Zambia's expanding industries, especially by its mines, as well as the high prices of oil on the international market.

Zambia imported products from EU countries such as France, Sweden, Germany, the Netherlands and Denmark.

Table 7: Imports by partner country, 2000-2005

Zambian Imports		Value (US$m)		Growth	% share
		2000	2005	2000-05	2005
#	World	863.5	2,565.4	24.3	100.0
1	South Africa	480.7	1,220.3	20.5	47.6
2	UK	74.1	322.7	34.2	12.6
3	Zimbabwe	66.7	110.4	10.6	4.3
4	UAE	10.4	94.4	55.4	3.7
5	France	7.5	90.1	64.3	3.5
6	China	10.2	85.1	52.9	3.3
7	India	16.0	80.1	38.1	3.1
8	Tanzania	8.9	65.6	49.1	2.6
9	Japan	24.1	41.7	11.6	1.6
10	US	40.3	41.2	0.4	1.6
11	Kenya	2.5	37.6	72.1	1.5
12	Sweden	2.7	36.6	68.5	1.4
13	Germany	9.6	36.2	30.5	1.4
14	The Netherlands	4.8	30.0	44.1	1.2
15	Australia	1.3	27.2	82.9	1.1
16	DRC	11.8	21.9	13.1	0.9
17	Denmark	4.0	17.7	34.9	0.7
18	Canada	7.0	17.5	20.0	0.7
19	Switzerland	4.4	16.4	30.3	0.6
20	South Korea	3.0	15.4	38.8	0.6
Selected Countries					
21	Malawi	2.4	14.4	42.8	0.6
23	Botswana	5.6	11.5	15.5	0.4
24	Mozambique	9.2	10.3	2.3	0.4
30	Namibia	1.5	6.3	33.7	0.2
	Concentration Index	0.33	0.25	-5.58	

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database

2.4. Fastest growing trade with partners

Table 8 shows that for 2000-2005, the fastest growing sources of Zambian imports were the Taiwanese province of China, Ghana, Qatar and Australia.However, although these countries' import bill grew, their import shares were very small, with the leading country's trade not exceeding $94.4m or 3.7% of Zambia's total imports.

For the review period, the fastest growing export trade partner was China. Exports from China increased at an average of 310.9% per annum, followed by exports from France and Japan, recorded at 226.9% and 149%, respectively, for 2000-2005.

Increased Chinese investment in Zambian mines' support services, such as in smelting and copper extraction facilities, contributed to that export growth. Copper ores and cathodes were the predominant exports from Zambia to China.

The trend for Zambia's other export markets was similar to that observed for its imports: the partners' share of Zambia's total exports was small. It was noted that most of Zambia's fastest growing trade partners for its exports were countries in the SADC region and for which the FTA and geographical proximity played a significant role. Moreover, internal conflicts almost halted production in Zimbabwe and the DRC and this played a role in the establishment of trade links with Zambia. Growth in exports to South Africa could be explained by South Africa's strong industrial base, which was able to absorb capital-intensive products. Further, some South African consumers had sizeable disposable incomes which enabled them to purchase high value products like flowers which other consumers, especially those in other regional member states with income levels similar to those in Zambia, could not.

Table 8: Fastest growing trade with partners, 2000-2005

	Importing	Value	% share	Growth	Exporting	Value	% share	Growth
Rank	**countries**	**US$m**	**2005**	**2000-05**	**countries**	**US$m**	**2005**	**2000-05**
#	World	2,565.4	100.0	24.3	World	1,839.6	100.0	16.6
1	Taiwan	10.2	0.4	350.0	China	39.1	2.1	310.9
2	Ghana	1.8	0.1	119.9	France	46.0	2.5	226.9
3	Qatar	0.9	0.0	95.7	Japan	30.2	1.6	149.3
4	Australia	27.2	1.1	82.9	Lesotho	0.7	0.0	79.0
5	Turkey	0.8	0.0	82.9	Tanzania	94.3	5.1	76.8
6	Kenya	37.6	1.5	72.1	Singapore	1.3	0.1	76.6
7	Sweden	36.6	1.4	68.5	Botswana	42.1	2.3	68.7
8	Czech Republic	1.0	0.0	67.2	Switzerland	527.9	28.7	39.7
9	Lebanon	2.2	0.1	67.0	Potugal	28.2	1.5	37.7
10	Egypt	6.2	0.2	65.5	Swaziland	0.9	0.1	35.8
11	France	90.1	3.5	64.3	Nambia	8.8	0.5	35.7
12	Brazil	6.3	0.2	60.6	Zimabawe	76.2	4.1	34.8
13	Cyprus	0.6	0.0	58.3	Malawi	63.4	3.4	32.3
14	UAE	94.4	3.7	55.4	Mozambique	0.8	0.0	31.9
15	Nicaragua	1.7	0.1	53.8	Maruritius	1.5	0.1	31.7
16	China	85.1	3.3	52.9	Israel	1.4	0.1	28.4
17	Tanzania	65.6	2.6	49.1	Italy	6.5	0.4	26.7
18	Netherlands	30.0	1.2	44.1	Kenya	13.8	0.8	26.1
19	Malawi	14.4	0.6	42.8	India	25.8	1.4	25.1
20	Austria	1.9	0.1	41.1	DRC	99.0	5.4	21.7

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database

2.5. Trade by sector and chapter

Table 9 shows Zambia's trade by sector. For 2000-2005, Zambia's exports grew rapidly in the metal products sector while its imports growth was concentrated in the machinery sector. High copper prices and the substantial investment into an industry that required importation of heavy industrial equipment contributed to that growth. Some intra-industry trade occurred in chemicals and minerals products.

Table 9 also shows that the value of imports grew by 24.3%, increasing from US$863.5m in 2000 to US$2,565.4m in 2005. The increase in the import bill is explained by continued high investment activity in the mining sector and the rise in the oil price on the world market.

Zambia had comparative disadvantages in chemical and machinery manufacturing. It thus relied on importing these products. As Table 9 reveals, the importation of machinery, chemicals and mineral products accounted for more than 48% of Zambia's import bill in 2005. Machinery imports grew rapidly: growth of 28.2% per annum was recorded for 2000-2005 and values increased from US$167.7m in 2000 to US$579.7m in 2005. Increased investment in the country's mining and manufacturing sectors accounted for that growth and also supported the Zambian economic growth trajectory that is recorded in Table 1.

Table 9: Imports by sector, 2000-2005

	Imports (US$m)		Growth	% share	
	2000	2005	2000-05	2000	2005
S01: Animals and Animal Products	5.1	12.3	19.1	0.6	0.5
S02: Vegetable Products	27.0	68.0	20.3	3.1	2.7
S03: Fats and Oils (Animal or Vegetable)	19.2	47.1	19.7	2.2	1.8
S04: Prepared Foodstuffs, Beverages and Tobacco	21.9	35.9	10.4	2.5	1.4
S05: Mineral Products	128.7	327.4	20.5	14.9	12.8
S06: Chemical Products	108.1	380.7	28.6	12.5	14.8
S07: Plastics and Rubber	41.3	212.2	38.7	4.8	8.3
S08: Leather Products	1.3	2.9	16.9	0.2	0.1
S09: Wood Products	2.1	9.7	36.1	0.2	0.4
S10: Paper Products	91.3	303.7	27.2	10.6	11.8
S11: Textile Products	49.4	71.7	7.7	5.7	2.8
S12: Footwear & Headgear	8.1	13.1	10.2	0.9	0.5
S13: Stone, Cement and Glass Products	12.2	26.8	17.0	1.4	1.0
S14: Pearls & Precious Stones	0.1	0.8	46.4	0.0	0.0
S15: Metal Products	59.9	182.3	24.9	6.9	7.1
S16: Machinery	167.7	579.7	28.2	19.4	22.6
S17: Vehicles, Aircraft and Vessels	91.2	229.9	20.3	10.6	9.0
S18: Photographic; Clocks; and Musical Instruments	7.6	32.2	33.5	0.9	1.3
S19: Arms and Ammunition	0.4	0.6	8.0	0.0	0.0
S20: Furniture, Toys and Other Products	18.6	28.2	8.6	2.2	1.1
S21: Works of Art & Antiques	0.0	0.3	52.2	0.0	0.0
S22: Commmodities NES	2.3	0.0	-62.4	0.3	0.0
Total trade	863.5	2,565.4	24.3	100.0	100.0
Concentration index	0.11	0.13	2.48		

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database

Zambia's increasing importation bill for machinery was related to reinvestments in its privatised mines and reinforced by a rise in investments in its new copper and nickel mines. Accordingly, as shown in

Table 10, in 2005 products in chapters 84 and 27, which included nuclear reactors, boilers, machinery and mineral fuels and oil distillation products, were its top import chapters with shares of 15.3% and 10.5% of the total import bill, respectively. For 2000-2005, chapter 84 products had an import bill of US$392m with a 33.3% growth rate, while chapter 27 products had an import bill of US$269m and a 20.6% growth rate. Manufactured products, such as vehicles, fertilisers, rubber and articles thereof, and electrical and electronic equipment were among Zambia's top 10 imported products. Zambia's fastest growing imports was works of art and antiques (52.2% growth rate), albeit from a very small base.

Table 10: Imports by chapter, 2000-2005

#	Top imports by Chapter	Imports (US$m)	Growth 2000-05	% share 2005
1	H84: Nuclear reactors, boilers, machinery, etc	392	33.3	15.3
2	H27: Mineral fuels, oils, distillation products, etc	269	20.6	10.5
3	H49: Printed books, newspapers, pictures etc	261	30.1	10.2
4	H87: Vehicles other than railway, tramway	215	20.2	8.4
5	H85: Electrical, electronic equipment	188	20.3	7.3
6	H31: Fertilizers	147	28.9	5.7
7	H40: Rubber and articles thereof	115	54.5	4.5
8	H39: Plastics and articles thereof	98	28.1	3.8
9	H73: Articles of iron or steel	76	26.2	3.0
10	H72: Iron and steel	71	27.1	2.8
11	H30: Pharmaceutical products	66	34.1	2.6
12	H15: Animal,vegetable fats and oils	47	19.7	1.8
13	H38: Miscellaneous chemical products	43	26.3	1.7
14	H10: Cereals	43	22.7	1.7
15	H48: Paper & paperboard, articles of pulp, paper and board	42	14.6	1.6
16	H25: Salt, sulphur, earth, stone, plaster, lime and cement	38	25.7	1.5
17	H28: Inorganic chemicals, precious metal compound, isotopes	37	27.3	1.5
18	H90: Optical, photo, technical, medical, etc apparatus	32	34.3	1.2
19	H29: Organic chemicals	31	29.1	1.2
20	H63: Other made textile articles, sets, worn clothing etc	25	3.7	1.0
	Fastest growing Chapters			
1	H78: Lead and articles thereof	5.14	99.1	0.2
2	H47: Pulp of wood, fibrous cellulosic material, waste etc	0.45	75.8	0.0
3	H02: Meat and edible meat offal	0.40	61.9	0.0
4	H67: Bird skin, feathers, artificial flowers, human hair	1.06	61.2	0.0
5	H40: Rubber and articles thereof	114.62	54.5	4.5
6	H43: Furskins and artificial fur, manufactures thereof	0.01	54.4	0.0
7	H97: Works of art, collectors pieces and antiques	0.29	52.2	0.0
8	H51: Wool, animal hair, horsehair yarn and fabric thereof	0.38	50.2	0.0
9	H71: Pearls, precious stones, metals, coins, etc	0.77	46.4	0.0
10	H53: Vegetable textile fibres nes, paper yarn, woven fabric	0.51	43.2	0.0

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database

Lead and articles thereof was Zambia's fastest growing import chapter. Growth in that chapter was recorded at 99.1% per year but the sector's share of total trade was small.

Vegetable, textile and paper fibres and yarns were among the fast growing imports by chapter even though Zambia's agricultural sector performed well during the review period.

The rapid growth in the importation of vegetables was a result of high domestic prices and the presence of a large, foreign-based retail sector that imported these products from their countries of origin at the expense of local sources. South African retailers, such as Shoprite-Checkers and Spur, dominated the formal retail sector in Zambia.

As noted earlier, the bulk of Zambia's imports were sourced from countries in the SADC region, particularly South Africa, highlighting the collective influence of trade arrangements, geographical proximity to the South African market and substantial FDI from South Africa on the Zambian economy.

Table 11: Exports by sector, 2000-2005

	Exports (US$m)		Growth	% share	
Exports by Section	**2000**	**2005**	**2000-05**	**2000**	**2005**
S01: Animals and Animal Products	6.7	13.3	14.8	0.8	0.7
S02: Vegetable Products	55.7	89.6	10.0	6.5	4.9
S03: Fats and Oils (Animal or Vegetable)	0.3	0.5	14.5	0.0	0.0
S04: Prepared Foodstuffs, Beverages and Tobacco	40.0	159.5	31.8	4.7	8.7
S05: Mineral Products	36.8	152.7	32.9	4.3	8.3
S06: Chemical Products	4.3	14.5	27.4	0.5	0.8
S07: Plastics and Rubber	0.9	5.9	45.5	0.1	0.3
S08: Leather Products	3.6	37.7	60.0	0.4	2.0
S09: Wood Products	3.7	18.8	38.4	0.4	1.0
S10: Paper Products	6.0	18.1	24.6	0.7	1.0
S11: Textile Products	41.1	84.2	15.5	4.8	4.6
S12: Footwear & Headgear	1.0	2.4	19.1	0.1	0.1
S13: Stone, Cement and Glass Products	1.1	0.5	-12.8	0.1	0.0
S14: Pearls & Precious Stones	22.2	22.2	0.0	2.6	1.2
S15: Metal Products	613.6	1,193.8	14.2	72.0	64.9
S16: Machinery	8.5	22.6	21.5	1.0	1.2
S17: Vehicles, Aircraft and Vessels	4.0	1.7	-15.2	0.5	0.1
S18: Photographic; Clocks; and Musical Instruments	0.2	0.2	4.8	0.0	0.0
S19: Arms and Ammunition	0.0	0.0	- 16.0	0.0	0.0
S20: Furniture, Toys and Other Products	0.5	0.3	-10.1	0.1	0.0
S21: Works of Art & Antiques	0.2	0.9	29.4	0.0	0.0
S22: Commmodities NES	2.1	-	-100.0	0.2	-
Total trade	852.5	1,839.6	16.6	100.0	100.0
Concentration index	0.53	0.44	- 3.59		

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database

Zambia's total export earnings grew by 16.6% per year, increasing in 2005 to US$1,839.6m from US$852.5m in 2000. Earnings from leather products grew at the fastest rate, expanding by 60% per year to US$37.7m in 2005 from US$3.6m in 2000. Earnings from metal products were the largest and had annual increases of 14.2%, rising from US$613.6m to almost US$1.2bn during the review period. The share of metal products earnings remained the largest overall, yet declined during the period under review, as is shown in Table 11. In other words, Zambia was still heavily dependent on exports of metal products despite government efforts to diversify its export base. The increase in copper export earnings contributed to the improvement in metal products earnings. Copper export earnings increased by 40.6% on account of both increased export volumes and realised unit prices.

Table 12: Exports by chapter, 2000-2005

		Exports	Growth	% share
#	**Top exports by Chapter**	**(US$m)**	**2000-05**	**2005**
1	H74: Copper and articles thereof	1,022	17.3	55.6
2	H81: Other base metals, cermets	164	2.0	8.9
3	H26: Ores, slag and ash	128	51.8	7.0
4	H52: Cotton	80	18.2	4.4
5	H17: Sugars and sugar confectionery	77	27.1	4.2
6	H24: Tobacco and substitutes	66	45.1	3.6
7	H42: Articles of leather	32	241.9	1.8
8	H07: Edible vegetables, roots & tubers	24	21.8	1.3
9	H71: Pearls, precious stones	22	0.0	1.2
10	H06: Live trees, plants, cut flowers etc	19	-1.9	1.0
11	H44: Wood and articles of wood	19	38.6	1.0
12	H85: Electrical, electronic equipment	18	29.1	1.0
13	H49: Printed books, newspapers, pictures	17	24.3	0.9
14	H10: Cereals	17	33.0	0.9
15	H21: Miscellaneous edible preparations	15	175.8	0.8
16	H09: Coffee, tea, mate and spices	14	6.5	0.8
17	H27: Mineral fuels, oils, distillation products	13	8.3	0.7
18	H25: Salt, sulphur, stone, plaster, lime	11	- 1.5	0.6
19	H04: Dairy products, eggs, honey	9	15.1	0.5
20	H11: Milling products, malt	9	6.5	0.5
	Fastest growing Chapters			
1	H43: Furskins & artificial fur & manufactures	0.23	378.3	0.0
2	H42: Articles of leather	32.33	241.9	1.8
3	H21: Miscellaneous edible preparations	14.73	175.8	0.8
4	H53: Vegetable textile fibres nes	0.05	168.6	0.0
5	H18: Cocoa and cocoa preparations	0.19	160.9	0.0
6	H83: Miscellaneous articles of base metal	0.65	114.6	0.0
7	H95: Toys, games, sports requisites	0.06	112.3	0.0
8	H29: Organic chemicals	0.40	103.0	0.0
9	H59: Impregnated, coated, laminated textile	0.10	101.1	0.0
10	H47: Pulp of wood, fibrous cellulosic	0.70	85.1	0.0

Note: growth is average annual growth (in %)

Source: TIPS/AusAID Southern African Trade Database

Copper and articles thereof, which accounted for 55.6% of all exports, were Zambia's top exports by chapter for 2000-2005. For the same period, other base metals and cermets accounted for a 8.9% share of total exports, as is evident from Table 12.

The trade data, which reflect the dominance of copper and other metals in foreign export earnings, show that Zambia had not diversifed its export base sufficiently over the review period.

Fur skins and artificial fur and manufactures, which are part of the H43 chapter, were the fastest growing export chapters during the review period. Export earnings for those products rose by 378.3% per annum to reach US$0.23m in 2005 but the chapter's contribution to total export earnings remained insignificant.

Exports of articles of leather grew by 241.9%. Non-metal exports, despite having a small export share, continued to grow significantly due to increased activity in the manufacturing sector – within which new product lines were introduced to meet local and export demand.

Since 1987, the Zambian government has pursued a policy of export diversification to move the economy away from its dependency on copper for its foreign exchange reserves. Table 12 shows that Zambia's fastest growing chapters were NTEs despite many of these sectors being small.

Section 3 discusses those trade policies and programmes that have led to the rapid growth in Zambia's exports of refined foods, beverages, tobacco and live animals. Although NTEs were promoted since 1987, Section 3 focuses only on the period 2000–2005.

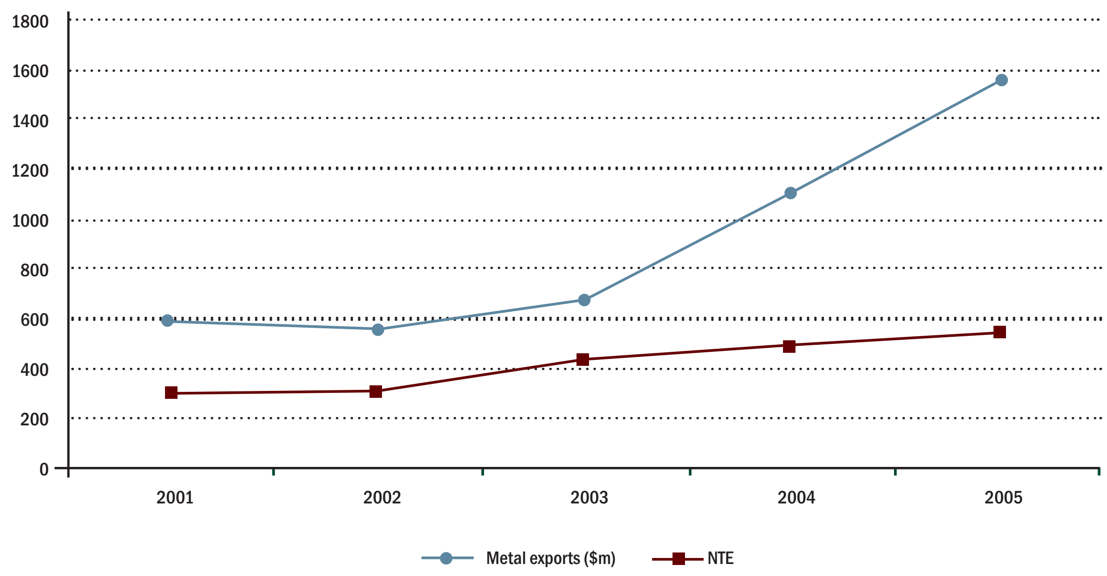
3. Selected trade commodities

In 1987, Zambia established the Export Board of Zambia under the 1985 Export Development Act 25 and as amended in 1994 by Act 29. The Export Board was required to promote the growth and development of NTEs that were defined as all export products except base metals such as copper and cobalt. Diversification of the economy and expansion of the country's production base was seen as vital for broadening Zambia's export base. Although the rationale was to reduce the country's reliance on copper, the strategy was also conceptualised as a poverty reduction initiative. Since 1987, NTEs have become a key source of foreign exchange earnings and an important source of employment for Zambia.

During the review period, NTEs' contribution to the country's total exports more than doubled, increasing from US$250m to US$588m in 2005. Average growth in Zambia's NTEs was recorded as exceeding 15% per annum for the last five years. Favourable enabling policies, combined with preferential market access and support from its cooperating partners, helped to contribute to that growth.

The regional markets have continued to gain prominence as principal markets for Zambia's NTEs. However, there are major challenges associated with a narrow NTE production base and with a continued concentration of exports in the primary commodities categories where little value addition occurs. Despite a remarkable expansion in its total exports, the contribution of NTEs to Zambia's total exports earnings increased from 33.5% in 2001 to 40% in 2002 but dropped drastically to 27% in 2005. The decline was influenced by the appreciation of the local currency in 2005 and the increased earnings achieved from the exportation of copper. Figure 1 compares Zambia's earnings from NTEs and metal exports for the period 2001-2005.

Figure 1: Recent trends in NTEs and metal exports (US$m), 2001-2005



Source: Central Statistics Office Database

Table 13 shows the performance of individual NTE sub-sectors.

For 2000-2005, the best performing sub-sectors were engineering products, primary agricultural products, processed and refined foods, gemstones, other manufactures, and chemicals and pharmaceuticals. Although the share of horticultural and floricultural products remained relatively high, their contribution to total NTEs declined from an average of about 12% in 2000 to 4.5% in 2005. A number of factors, such as the increased cost of fuel, the liquidation of one of the main producers, the appreciation of the local currency and the decline in the export levels of floricultural and horticultural products to developed markets (which was linked to the aforementioned liquidation) contributed to this decline.

Table 13: Proportion of NTEs (US$'000) 2000-2005

Sector	2000	2001	2002	2003	2004	2005
Animal products	1.41	1.11	1.59	1.01	0.43	0.39
Building materials	3.62	2.58	1.90	3.13	1.77	1.54
Chemical and pharmaceutical products	2.94	2.16	4.41	2.71	2.09	3.75
Engineering products	8.59	7.69	6.80	8.16	13.80	17.58
Floriculture	14.12	12.32	9.27	6.29	5.71	5.85
Garments	0.16	0.08	0.07	0.05	0.03	0.08
Gemstones	6.44	7.35	11.36	6.64	3.48	5.76
Handicrafts and curios	0.10	0.08	0.12	0.04	0.01	0.03
Horticulture	11.41	13.16	13.75	12.90	7.65	3.74
Leather and leather products	1.81	1.42	1.27	0.94	0.75	0.72
Non-metallic minerals	0.47	0.32	0.43	0.73	0.34	0.21
Other manufactures	1.82	3.31	2.99	4.32	6.21	4.05
Petroleum oils	0.18	0.59	0.44	5.17	5.98	2.62
Primary agriculture	15.47	18.57	23.42	27.48	34.95	35.92
Processed and refined foods	14.82	15.55	13.39	12.32	10.63	12.21
Textiles	15.02	12.35	7.84	7.29	5.28	4.91
Wood products	1.62	1.36	0.97	0.83	0.89	0.63
Total NTEs as %	100	100.00	100.00	100.00	100.00	100.00
Total (US$'000)	239,849	276,534	326,706	356,335	468,552	548,390

Source: Export Board of Zambia

Regional markets continued to gain prominence as the principal markets for Zambia's NTEs. During the period under review, there was a shift from Europe to the SADC region as the primary export destination for Zambia's NTEs. The SADC accounted for more than 40% of total NTEs. The EU, followed closely by the COMESA, were the next two largest destinations for NTEs. Asia was the fourth destination and consistently absorbed an average share of 6% of Zambia's NTEs over the review period.

3.1. Analysis of selected sectors

Table 14 shows selected, fastest growing NTEs for Zambia. Among the fastest growing exports were manufactures, live animals, beverages and foodstuffs. The contribution of the fastest growing sectors increased by almost five times, rising from US$82.3m to US$510.5m over 2002-2005, and represented more than 90% of Zambia's NTEs' earnings.

Table 14: Selected sub-sectors, 2002-2005

Top export sub-sectors	2002	2005	Average growth (2002-2005)	Total share 2005
	US$m	US$m	%	%
Total sub-sector exports	82.33	510.58	84.5	100
HS 0105 Live fowls of species gallus domesticus of ≤185 grams	0.12	0.33	59.43	0.06
HS 0106 Live primates	0.11	0.01	-15.19	0.00
HS 1069Live animals excluding horses, bovines, goats, sheep, poultry	2.52	0.01	-63.66	0.00
HS 0301Live ornamental fish	0.29	0.33	-38.46	0.06
HS 0708 Beans fresh or chilled	0.72	0.00	-65.15	0.00
HS 0901 Coffee husks and skins, coffee substitutes with coffee	5.76	13.05	32.48	2.56
HS 0904 Other black tea (fermented) whether or not flavoured	1.16	0.64	-13.12	0.12
HS 1104 Of maize (corn)	0.06	0.23	1,324.42	0.04
HS 1701 Raw cane sugar in solid form	32.17	73.96	39.30	14.48
HS 1703 Cane molasses from extraction or refining of sugar	2.88	0.18	-25.77	0.03
HS 2202 Other non-alcoholic beverages not elsewhere specified (n.e.s.)	0.01	0.32	237.31	0.06
HS 2403 Tobacco partly or wholly stemmed or stripped	3.83	21.53	117.83	4.22
HS 2523 Portland cement (excluding white)	5.60	8.35	20.06	1.64
HS 2807 Sulphuric acid	1.28	0.62	13.66	0.12
HS 3401 Other soap in other forms n.e.s.	0.27	6.70	325.22	1.31
HS 7409 Wire of refined copper of maximum cross-sectional dimension	18.99	367.33	194.86	71.94
HS 8207Rock drilling or earth boring tools (no working parts)	0.07	0.17	39.96	0.03
HS 8478 Machinery for preparing or making up tobacco n.e.s.	0.02	0.49	428.64	0.10
HS 8544 Electric conductors n.e.s. for a voltage >1000 volts	6.45	16.21	47.63	3.18
HS 8704 Other goods vehicles diesel or semi-diesel engines	0.04	0.14	300.34	0.03

Source: Central Statistics Office Database

3.1.1. Manufactured goods

Of all of Zambia's NTEs, engineering manufactured goods were increasingly important on its export list. The sub-sector could be further divided into semi-finished and finished non-ferrous metals, finished metals and other engineering products. The fastest growing manufactures for 2000-2005 were refined copper wire, power cables and building wire, followed by electric conductors and rock drilling or earth boring tools. Wires of refined copper and power cables contributed more than 71% to Zambia's fastest growing sub-sectors in 2005, increasing from US$18m in 2002 to US$367.3m in 2005. New investment targeted at increasing production capacity at Zambia Metal Fabricators, which is part of the US' Phelps Dodge Cable and Wire Company, increased the demand for copper rods and cables in the international and regional markets. Zambia Metal Fabricators' global marketing experience contributed to the surge in output and ultimately in exports.

The NTEs' markets' growth was given significant impetus by the phase-down of tariffs carried out under the SADC Trade Protocol, which enabled Zambia to export non-traditional products to South Africa and SACU. The duty- and quota-free access that Zambia enjoyed contributed to the increase in exports by the sub-sector.

South Africa was the largest principal market for Zambia's cables, copper rod and aluminium, followed by Kenya, Tanzania, Zimbabwe, Malawi, Botswana, Namibia and the DRC. Among the COMESA countries, Kenya remained the biggest market for Zambia's engineering products. Uganda, the Philippines, Switzerland, Hong Kong, India and Mozambique were other important markets for these products.

3.1.2. Processed and refined foods

During the period under review, the processed and refined foods sector comprised a wide range of products and played an important role in Zambia's economic growth because of its employment creation capacity and its ability to provide a wide range of backward and forward linkages in the agriculture and agricultural food processing sectors. Products produced by this sector include white sugar, cereals, wheat flour, stock feeds, milk, vegetable oil, beverages, honey and beeswax, mealie-meal and molasses. Sugar dominated the sector, as is shown in Table 14, and sugar exports accounted for the bulk of Zambia's export earnings for this particular sector.

Millers responsible for the production of maize by-products, which include stock feeds, maize flour and mealie-meal, played a role in the expansion of the exports of particular processed food items. Table 14 shows that maize corn (coded as HS1104) was the fastest growing sub-sector during the period, growing from US$0.06m in 2002 to US$0.23m in 2005. However, its overall contribution remained relatively small because maize, a staple food in Zambia, remained highly regulated by the government. Good weather patterns also contributed to the growth in exports, as did food deficits in the DRC, Zimbabwe and Malawi that created considerable demand within the region.

Sugar made up almost 80% of Zambia's total processed foods exports. Its contribution to total exports from the fastest growing sectors stood at 14.5%, with sugar exports rising from US$32.2m in 2002 to US$73.96m in 2005. Zambia had the fourth lowest sugar production costs in the world.[42] Higher export quotas offered by the regional and international trade arrangements to which Zambia was a signatory helped to guarantee a secure market for its local sugar industry and created important employment opportunities. Consequently, cane production increased and was enhanced by operational improvements made during the off-crop period.[5]

[42] The world's top 10 lowest-cost sugar producers are Brazil, Zimbabwe, Malawi, Zambia, Australia, South Africa, Swaziland, India, Thailand and Chile (Illovo Sugar Company, 2004).

[5] This refers to periods after crop harvest and times where there is reduced sugar processing.

Zambia exported sugar to the EU, especially to the UK and Denmark, under a preferential arrangement. The EU's quota for Zambian sugar, as specified under the Sugar Protocol, stood at 12,000 MT in 2005 while 9,000 MT was exported under the EBA initiative (Export Board of Zambia, 2005), increasing total sugar exports to 21,000 MT.

The phasing down of tariffs in the SADC region also contributed to increased exports of sugar to South Africa, the DRC, Namibia and Botswana. Currently, Zambia does not have a bilateral trade agreement with the DRC but more exports to the DRC are envisaged if it is to implement either the SADC Trade Protocol or the COMESA Protocol. An additional quota of 7,250 tonnes was allocated to Zambia for exports to the EU in late 2006, which led to increased export earnings in the sector. This has been enhanced by South African-owned firm Illovo's substantial investment in the sector. Illovo brings considerable international marketing experience to the Zambian sugar industry.

The sugar industry's growth prospects are bright because of the sugar reforms initiated in the EU, which involved a phased reduction in the EU duty. These reforms were initiated in 2006 and will culminate in duty-free access in 2009. Countries such as Zambia will be able to take advantage of the reforms through their EBA access to the EU market (Busse & Jerosche, 2006: 107).

Table 15: Export markets for selected NTEs, 2002-2005

Importing countries	2002	2005	Average growth 2002-2005	Share 2005
	US$m	US$m	%	%
Total of selected exports	82.3	510.6	84.5	100
UK	1.8	162.5	1,326	31.82
Switzerland	0.0	136.6	2,470	26.75
South Africa	26.6	80.8	56	15.82
DRC	23.4	34.0	19	6.66
Malawi	4.0	23.6	106	4.62
Kenya	4.0	11.8	44	2.32
India	0.0	8.5	20,204	1.67
Tanzania	1.6	7.5	88	1.47
Germany	1.7	5.3	61	1.05
Zimbabwe	2.3	2.2	21	0.43
The Netherlands	0.4	1.2	44	0.23
Botswana	0.1	0.9	121	0.18
Uganda	0.3	0.9	103	0.18
US	0.7	0.8	63	0.16
Namibia	0.3	0.5	508	0.11
Mozambique	0.1	0.3	109	0.05
Japan	0.2	0.1	23	0.01
Denmark	0.0	0.1	1,079	0.01

Source: Central Statistics Office Database

3.1.3. Live animals

Exports from most of the live animal sub-sectors, as indicated in Table 14, declined over 2002-2003.

Those sub-sectors that declined (HS0106, HS1069 and HS0301) included domestic fowls, live primates and ornamental fish.

The only sub-sector that registered positive growth was HS0105 – the live fowls sector. The sector's export earnings increased in 2005 due to the increased demand for day-old chicks in Kenya and the DRC.

Overall, the animal sector recorded export earnings of US$2.13m in 2005, an increase of 9.76% from 2004's US$1.94m earnings.

3.1.4. Beverages

Of the export beverages that grew rapidly over the review period, coffee and tea are worth discussing in some detail.

While coffee export earnings grew by an average of 34% per annum for 2002-2005, earnings for tea products declined by 13% per year. In 2005, the main export markets for coffee were South Africa, the Netherlands, Germany and the UK. Other smaller importing markets included Japan, Norway, Malawi and Tanzania.

The coffee market recovered from dramatically low price levels recorded in previous years while national supply increased mainly due to expanded farming hectarage on Zambian farms. As South American countries reduced their production of coffee, there was a growing interest in Zambian coffee from the Japanese niche market, especially after Expo 2005. Interest was also shown in Zambian coffee by the US company that owns the world's largest chain of coffee shops. Should these various interests be transformed into trade deals, Zambian coffee exports will increase significantly.

Shifting the focus from coffee, for 2002-2005, tea exports declined from US$1.16m to US$0.6m due to reduced production caused by late rainfalls, the late application of fertilisers and chemicals, low labour turn-out[6] and frequent interruptions of the power supply to the country's only factory. The problem was compounded by low prices realised in Kenya. Although the Kenyan market normally offered good prices for tea, it was recently affected by excess production. Apart from Kenya, the DRC was the other important destination for Zambian tea exports.

6 Low labour turn-outs were mainly due to strikes and the inability of firms to attract the required labour force due to unattractive working conditions. This resulted from the low realised profits from exports.

3.1.5. Tobacco

Over the review period, tobacco exports grew by an average of 113% per annum. Increased investment in the sector, principally by displaced Zimbabwean farmers who continued to move into the country to set up their farms, contributed to this growth. In addition, small-scale farmers ventured into tobacco production due to its favourable returns.

However, the sector is likely to be hit by the EU's reduced funding under the Export Development Fund Initiative (EDFI) and the withdrawal from the sector following successful anti-smoking campaigns being run in the West.

Zambia lacks a tobacco processing plant that can handle large volumes of tobacco. Consequently, most Zambian tobacco was exported to Malawi and Zimbabwe where it was sold on the auction floors. Germany, Poland and France were other important markets, while smaller importers of Zambian tobacco included Switzerland, China, Canada, Denmark, Egypt, the US and Spain.

3.1.6. Other export promotion activities

The provisioning of funds by development partners contributed to the rapid growth of NTEs in Zambia. Notably, since 1995, the EU had provided funding to many of Zambia's NTE sectors through its Export Development Programme (EDP) I and II. In close cooperation with the Export Board of Zambia, the EDP I and II offered technical and financial assistance to eight Producer Associations (PAs) within several of those sectors, including timber, leather, gemstones and handicrafts. Although tobacco benefited from the PA initiative during the first EDP, it was deregistered during the second EDP because of the impact of the global anti-smoking campaign on the market.

The EDP II targeted members in various PAs that received financial and technical assistance. Through its different components, the EDP fulfilled the role of engaging those PAs in a broad-based process of export and capacity development. The programme recorded some positive results in 2005. Generally, the benefits accrued to the PAs from the EDP have included enhanced exports and the establishment of sustainable PAs.

Apart from the above interventions, the Export Board of Zambia undertook several promotional activities, both locally and in its international target markets. The Export Board participated in regional trade fairs in countries like the DRC, Tanzania, South Africa, Malawi and Mozambique. Further trade and investment promotion missions were undertaken in China and Japan.

4. Conclusion

A review of Zambia's trade performance for 2000-2005 revealed that its exports more than doubled – from US$853m in 2000 to US$1.8bn in 2005 – while its imports trebled, from US$864m to US$2.6bn.

Most of Zambia's exports were absorbed by the SADC region, which had a 40% share of total exports, followed by the rest of Europe with a 28% share, the EU with a 24% share and Asia with a 6% share.

South Africa, the DRC, Zimbabwe, Tanzania and Malawi were the main destinations for exports within the SADC region. South Africa dropped from first to second largest destination for Zambian exports, mainly due to Zambia's increased levels of exports of copper and copper products to Switzerland. Copper remained Zambia's main foreign exchange earner for the review period, although its contribution dropped from 72% of total export earnings in 2000 to 65% in 2005. The share of NTEs within Zambia's trade basket increased as a result of the increased exports of copper products, such as copper wires and copper rods, along with the partial success of the government's diversification programme and the increased demand for Zambian goods regionally and internationally. Exports data trends showed that Zambia exported mostly to those countries and regions with which it had market access preferences.

Meanwhile, the SADC region maintained its position as an important source of Zambia's imports. Overall, 57% of its imports were sourced from the SADC region and South Africa was the main supplier of its imports. Goods imported from South Africa were mainly manufactures of machinery and chemicals which were key inputs into Zambia's reviving mining and industrial sector. The second largest source of imports was the EU, accounting for 22% of total imports, followed by Asia at 14% and the Americas at 2.7%. The UK, France and Germany were important European sources for imports into Zambia.

The markets of destination for Zambia's exports suggested that market access was not currently a binding constraint to the export expansion and diversification of its economy. The country received non-reciprocal, preferential market access through the GSP, the Cotonou Agreement and the EBA initiative to the EU and to the US market through the AGOA.

Within eastern and southern Africa, Zambia participated in both the COMESA and the SADC FTAs. Both these regions have committed to becoming customs unions and in so doing adopting a common external tariff. Zambia will therefore need to make a decision at some point about which of these two Preferential Trading Arrangements are most beneficial to be party to. The EU Economic Partnership Agreement process further complicates matters .

It is interesting to note that the existence of a preferential trading arrangement has not necessarily translated into robust increases in trade. Trade is growing faster with certain partners, particularly in Asia, with which no preferential trading arrangements have been concluded. China was Zambia's fastest growing export destination. Exports to China grew at 310.9% per annum, considerably larger than Zambia's export growth rates to France and Japan, recorded at 226.9% and 149%, respectively. Significantly, China was not one of Zambia's traditional markets or trade partners. Therefore, Zambia, over the years, has managed to diversify its export destinations.

The Zambian government has adopted a trade policy that is viewed as a poverty reduction tool. With improving metal prices, as well as production and NTE prices, the performance of Zambia's export sector is poised to continue growing. In addition, the government, with the assistance of cooperating partners, has initiated a public-private partnership-driven export promotion strategy, which is envisaged to assist the country in further improving its export performance.

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