UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

ZAMBIA AND THE MULTILATERAL TRADING SYSTEM: THE IMPACT OF WTO AGREEMENTS, NEGOTIATIONS AND IMPLEMENTATION

UNITED NATIONS
New York and Geneva, 2006

NOTE

- This Report was prepared by Prof. Manenga Ndulo under the supervision of UNCTAD and the Ministry of Commerce, Trade and Industry of Zambia in the framework of the Joint (ITC/UNCTAD/WTO) Integrated Technical Assistance Programme to selected Least Developed and Other African Countries (JITAP).

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UNCTAD/DITC/TNCD/2005/16

UNITED NATIONS PUBLICATION

ACRONYMS

ACP	African Caribbean and Pacific
AGOA	African Growth Opportunity Act
BD	Budget Deficit
BOZ	Bank of Zambia
CA	balance of payments current account
COMESA	Common Market for Eastern and Southern Africa
CSO	Central Statistical Office
CSTNZ	Civil Society Trade Network of Zambia
EBA	Everything But Arms
EBZ	Export Board of Zambia
ED	External Debt
EDF	European Development Funds
EPA	Economic Partnership Agreement
EU	European Union
FDA	Food and Drug Agency
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDFCF	gross domestic fixed capital formation
DFID	Department of International Development
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GRZ	Government of the Republic of Zambia
GSP	Generalized System of Preferences
HDI	Human Development Index
IF	Integrated Framework
ITC	International Trade Center
JCTR	Jesuit Center for Theological Reflection
JITAP	Joint Integrated Technical Assistance Programme
LDC	Least Developed Country
MFN	Most Favoured Nation
MCTI	Ministry of Commerce, Trade and Industry
MOFNP	Ministry of Finance and National Planning
NGO	Non-Governmental Organization
NWGT	National Working Group on Trade
RoO	Rules of Origin
SADC	Southern African Development Community
SPS	Sanitary and Phyto-Sanitary
TBT	Technical Barriers to Trade
TRIPS	Trade Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
UNDP	United Nations Development Programme

USAID	United States Agency for International Development
WTO	World Trade Organization
ZACCI	Zambia Association of Chambers of Commerce and Industry
ZBS	Zambia Bureau of Standards
ZEGA	Zambia Export Growers Association
ZEPZA	Zambia Export Processing Zone Authority
ZNFU	Zambia National Farmers Union
ZRA	Zambia Revenue Authority

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INTRODUCTION

Zambia joined the GATT in 1982 and was a founding member of the WTO that was established in 1995. Zambia is a least developed country with a per capita income of US$385 in 2005. The country is ranked among the twenty poorest countries in the world. This gives the country specific difficulties and special circumstances in the formulation, negotiation and implementation of multilateral trade rules. Since 1995, there has been an increasing awareness of the importance of multilateral trade rules among policymakers and the private sector in helping to resolve the intractable poverty situation in the country. Under these circumstances, trade must play a crucial role in achieving a higher growth rate and resolving the difficulties of poverty and help raise the standard of living. Increased real growth rates, the eradication of poverty and the consequent improvement in the standard of living cannot be expected without deliberate and persistent policies to improve the competitiveness of the economy and widening market access opportunities in the country's existing and potential export markets.

Zambia's poverty levels are high and have not fallen despite some indications of positive growth during the past few years. It is estimated that 67 per cent of the population live in poverty in 2003. The country has low rates of real growth. The real GDP growth rate was estimated at 5.01 per cent in 2004. It averaged 2.2 per cent per annum between 1995 and 2004. It is a small economy with real GDP estimated at US$4.9 billion in 2003 and a population of 10.3 million people. Real GDP in 1995 was $3.3 billion. Real GDP in 2003 was only about 48.5 per cent higher than the real GDP in 1995. This implies that the country has not only remained small but has not increased its real output substantially since the establishment of the WTO.

Zambia in addition to being one of the poorest countries in the world is small and landlocked with long distances to its major ports. This adversely affects the cost of its exports especially in terms of transport costs. This makes efforts at making Zambia globally competitive especially difficult. The largest economy in the region is South Africa that has a GDP about 40 times that of Zambia. Zambia is only larger than the economies of Swaziland, Malawi and Lesotho. It compares favourably with Mozambique.

Productive activities in the economy are dominated by the mining sector. The key mining activities are the extraction and processing of copper, cobalt, precious and semi-precious stones. This contributed to about 8.3 per cent of GDP and 61.7 per cent of total exports in 2003. The contribution of mining activities to GDP has been declining over the years reflecting the stagnation of the sector and the government is making efforts to diversify production to other activities in the economy. The services sector — the most important sector in terms of productive activities — contributed 65.7 per cent of GDP in 2004. However, the sector has the least export earnings. Services is followed by agriculture and manufacturing. These contributed 15.1 per cent and 10.96 per cent of GDP in 2004 respectively. Both sectors have great potential to increase export earnings. The agriculture sector has become diversified over time from grains to horticultural and floricultural products. Agricultural exports accounts for over 30 per cent of total export earnings. Manufacturing, in particular agro-processing, has also recently become an important economic sector.

I: MACROECONOMIC TRENDS AND PERFORMANCE

Since the late 1980s, the country has been undergoing a reform programme with the support of the IMF, the World Bank and bilateral donors. The major influence on economic policy and trade reform during this period has come from multilateral institutions and bilateral donors. The reforms were aimed at bringing about macroeconomic stability so as to induce real growth in the economy, which had been declining since the 1970s. The reforms consisted of the liberalization of the domestic markets in goods and services, the liberalization of financial markets and the privatization of a dominant sector of state-owned companies. Exchange controls on the capital account where removed, tariffs reduced and quantitative restrictions on exports and imports were removed. The pace of economic policy and reform was very rapid and sustained between 1991 and 1996. Thereafter it faltered and has since stalled.

Table 1 below depicts the performance of the economy since the establishment of the WTO in 1995. The reform effort has managed to stabilize the economy, producing positive growth rates with an average of 2.2 per cent per year over the period. Consequently, the decline in per capita incomes was curbed. Real per capita incomes grew at an average of 1.8 per cent per annum. The inflation rate and real interest rates fell drastically during the period, although they still remain high. The inflation rate dropped from 46 per cent in 1995 to 17 percent in 2003. Lately, it has been difficult to reduce the inflation rate any further. It has stuck at 17 per cent indicating structural and institutional factors that need to be addressed by policymakers. The level of domestic savings and investment are still very low, although the other parameters have increased slightly. The ratio of gross domestic savings to GDP increased from 12.2 per cent in 1995 to about 17.7 per cent in 2003. However, the ratio averaged about 7 per cent during the period, depicting a severe lack of domestic savings during the period. The ratio of gross domestic investment has been stagnant at 16 per cent, indicating a lack of investment response (Adam and Bevan, 1995). There have been, however, increased inflows of FDI especially in the services and mining sectors of the economy. Much of this has been the result of the privatization program (UNCTAD, 2005, 9). FDI inflows increased from $97 million in 1995 to $207 million in 1997. Thereafter, the inflows continuously fell until they hit $72 million in 2001. The inflows increased to $197 million in 2002 (UNCTAD, 2003). Over the years, such factors as uncertainty, policy reversals and inadequate infrastructure have played an important role in attracting FDI into the country.

Table 1: Basic Economic Indicators, 1995-2004 (in per cent)

Period	1995	1995-1997	1998-2000	2001-2003	2003	2004