ZAMBIA'S TRADE SITUATION: IMPLICATIONS FOR DEBT AND POVERTY REDUCTION

A REPORT

Prepared
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An Analysis of Zambia's Trade Situation: Implications for Debt and Poverty Reduction

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ACRONYMS / ABBREVIATIONS

ACP	African Caribbean Pacific
AGOA	African Growth Opportunity Act
AU	African Union
BOZ	Bank of Zambia
CAP	Common Agriculture Policy
COMESA	Common Market for Eastern and Southern Africa
EBA	Everything But Arms
EPAs	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
GATS	General Agreement in Trade in Services
GDP	Gross Domestic Product
GRZ	Government of the Republic Of Zambia
GSP	Generalized System of Preferences
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
IMF	International Monetary Fund
JCTR	Jesuit Center for Theological Reflections
LMC	Like Minded Countries
LDC	Least/Less Developed Country
MCTI	Ministry of Commerce Trade and Industry
MFN	Most Favored Nation
MoFNP	Ministry of Finance and National Planning
MTS	Multilateral trading system
NAMA	Non-Agriculture Market Access
NDP	National Development Plan
NTEs	Non-Traditional Exports
NWGT	National Working Group on Trade
PRSP	Poverty Reduction Strategy Paper
RIFF	Regional Integration Facilitation Forum
RSA	Republic Of South Africa
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SDT	Special and Differential Treatment
SEATINI	Southern and Eastern Africa Trade Information and Negotiations Institute
SPS	Sanitary Phytosanitary
TOT	Terms of trade
TNDP	Transitional National Development Plan
TRALAC	Trade Law Centre for Southern Africa
TRIPS	Trade-Related Aspects of Intellectual Property Rights
USA	United States of America
WTO	World Trade Organization
ZEPZA	Zambia Export Processing Zones Act

ACKNOWLEDGEMENTS

This report emanates from JCTR Debt and Trade Project's efforts to employ, within its advocacy and campaign strategies, informed positions on Zambia's trade situation and its synergies with debt, investment and poverty reduction. Since Zambia has now attained the HIPC completion point, the JCTR Debt and Trade Project's concern is that debt and unfair external trade cannot be discussed in isolation as the two are self reinforcing and militate against the overall objective of poverty reduction and national development. Unless we pay attention to the linkages among debt, poverty and trade, it will be difficult to rid the county of underdevelopment especially the high poverty levels among the Zambian people.

This report would not be in this form had it not been for the professional insights of the JCTR staff particularly Peter Henriot (Director), Jack Jones Zulu (Policy Analyst), Charity Musamba (Coordinator), and Saul Banda Junior (Provincial Outreach Coordinator).

EXECUTIVE SUMMARY

The problem of unsustainable external debts continues to be a major source of concern among the civil society, cooperating partners, government and indeed other stakeholders. With Zambia's qualification to the Heavily Indebted Poor Country (HIPC) completion point in April 2005, the external debt relief and cancellation are likely to significantly reduce both Zambia's external debt stock and debt service amounts, other things being equal. However, the unfair external trade regime at the international level threatens the sustainability of the external debt stock as it generates Balance of Payment (BOP) crises that require mitigation mainly through external borrowing. Thus, the Jesuit Centre for Theological Reflection (JCTR)' s Debt and Trade Project is concerned that the relationship among debt, trade and poverty is a very important factor and must be explored and made part of the holistic policy environment, which leads to sustainable development.

Therefore, this study was commissioned by the JCTR's Debt and Trade Project to explore Zambia's trade situation. Among the focus questions addressed are the following: What is Zambia's trade situation like? How are the trade policies and negotiation positions formulated? Is there a linkage between trade and investment in Zambia? What are the main trade protocols that the country has so far ratified? What is the likely impact of the Economic Partnership Agreements (EPAs) on Zambia? Furthermore the paper sought to define clearly the link between trade and debt and how these impact on the Zambian people.

The main conclusions drawn from the study are that: First, there is a very strong linkage among trade, debt and poverty. Second, Zambia's comparative or competitive advantage in the non-traditional exports (NTEs) lies mainly in the Agriculture sector. Third, the full trade reciprocity with the European Union (EU) will be very costly for Zambia irrespective of how the issue is looked at.

Further the paper recommends that there is urgent need to lobby for fair trade if debt sustainability and poverty reduction are to be a reality in Zambia. In this vein, there is need for closer cooperation among government, civil society organisations and other non-state actors. Moreover, the JCTR has a specific role to play in the advocacy for more just trade that will lead to poverty reduction and sustainable human development.

An Analysis of Zambia's Trade Situation: Implications for Debt and Poverty Reduction

1.0 Background and Rationale

The supremacy of international trade as an engine of growth has regained its pre-eminence on the development agenda. Thus far external trade has been accepted as not only an engine of growth but also as a critical element of any strategy to satisfy domestic aggregate demand and fight poverty. For Zambia, international trade relations are very important given the country's dependence on imports for the much-needed manufactured goods and earnings from the export of primary commodities.

Within the global context, there is compelling evidence to show that most poor countries at the behest of the Bretton Woods Institutions are pursuing export-led policies within the framework of neo-liberalism. However, most of the least developed countries like Zambia are faced with declining terms of trade, export barriers and ambiguous trade protocols within the regional and multilateral trading systems (MTS). This results in chronic current account deficits and balance of payments (BOP) crises that militate against development in poor countries. As an interim measure to close the BOP deficits, the poor countries are usually forced to borrow domestically and externally with the resultant accumulation of huge domestic and external debt stocks. Most of the external debt poses adverse economic effects on the borrowing country given the austere conditionality and 'shock therapies' that donors attach to the loans.

1.1. Objective of the Study

Since 1998, Jubilee-Zambia, hosted by the Debt and Trade Project of the Jesuit Centre for Theological Reflections (JCTR), has campaigned for total cancellation of poor countries' external debts. In Zambia these efforts have yielded some results with Zambia's qualification to the HIPC completion point in 2005. On the other hand the BOP deficits arising from poor trade performance continue to threaten the sustainability of the debt stock and hence the possibility of durable poverty reduction. Concerned with this situation, Jubilee-Zambia has realized that the issues of external debt cannot be realistically discussed in isolation from those of trade, as the two are intricately linked and mutually reinforcing.

These concerns have motivated Jubilee-Zambia to commission this study to establish Zambia's trade situation. Among the specific aims, the study was to do the following:

- Establish Zambia's trade situation (that is, the level of trade, commodities traded and direction of trade)
- Highlight the policy formulation process
- Show the linkage between trade and investment in Zambia
- Highlight Zambia's main trade protocols that the country has so far ratified
- Identify the civil society groups that are already working on trade issues
- Offer specific recommendations for government, civil society organisations and JCTR

1.2. Significance of this study

This study has been undertaken at a time when the country is making major policy changes in the external trade and negotiations arena. Zambia is a signatory to a host of trade protocols that have various implications on national development. Among the civil society, there is concern that despite the benefits that the country enjoys in some trade agreements, the unfavourable trading regime is posing a threat to Zambia's BOP position that triggers debt, poverty and militates against national development. Hence there is need to pay attention to trade as it forms the apex of national and global development. The output of this study is expected to form the JCTR's Debt and Trade Project launching pad for engagement in trade issues at national, regional and international levels. Furthermore, the output of this study is expected to be a source of information for other civil societies and JCTR's cooperating partners.

The study relies mainly on secondary data sources, literature review and interviews with key informants. The study faces limitations in terms of availability of disaggregated statistical data that can help to clearly link trade to debt and poverty reduction.

1.3. Organisation of the Study

The paper is structured as follows: Section 2 considers Zambia's socio-economic background, Section 3 highlights Zambia's trade performance, characteristics and composition of trade flows; Section 4 briefly describes Zambia's trade policies; Section 5 links trade and investment policies, policy formulation and implementation issues. The Trade protocols and arrangements that Zambia is party to are discussed in section 6. Section 7 considers the impact of subsidies and quotas on key commodities. Section 8 highlights the linkage between trade and poverty. Section 9 provides some of the barriers to market access in the western countries. Finally, Section 10 provides the conclusion and recommendations.

2. Economic Background

Zambia has a population of about 10.5 million and a nominal Gross Domestic Product (GDP) of about US$5.3 billion with US$ 385 per capita income in 2005. The GDP is composed of an average of 22 percent agriculture value added, 26 percent industrial value added and 52 percent services value added. The agriculture sector is the second largest paid labour (formal) employer of about 16 percent after the services sector that absorbs 63 percent[1].

Over the last four years the economy has registered an impressive positive real economic growth rates, averaging at 4 percent per annum compared to 1.8 percent average between 1995 and 2000.[2] Generally, the performance of the economic fundamentals has remained meagre. Inflation which is food driven has remained high at 17.5 %. The high inflation rates with the still meagre economic growth rates and stable nominal wages have contributed to the continued persistent rise in the poverty levels. Meanwhile the debt levels continue to be high amounting to US$7.1 billion in 2004. The debt stock comprises US$6.6 billion contracted by

[1] The agriculture sector employs over 70% of the informal sector workers.
[2] This rate of economic growth is far below the 7% necessary to halve poverty by 2015

the government with US$460 million having been contracted by the private and parastatal borrowers as publicly guaranteed debt.

The Living Conditions Monitoring Survey (2002/3) reveals that the poverty level, which stood at 73% in 2000, was at 67 % in 2002/3. The same survey shows that the greater number of the poor, up to 74%, is found in the rural areas against 52 % for urban dwellers. However, this finding does not tell whether poverty really declined or not as the methodologies used in generating the two statistics are different. An examination of the performance of the United Nations Human Development Index (HDI), whose calculation method has been consistent, reveals that poverty has deteriorated over the years. The country has slipped in its international ranking on the HDI. Out of 173 states Zambia was ranked as number 153 in 2002 before slipping further down to 163 in 2003. The latest Human Development Report (2004) reveals that the country has declined to 164^{th} position out of 177 countries. The challenge to reduce poverty in Zambia still remains colossal.

At the moment, the Poverty Reduction Strategy Paper (PRSP) and the National Development Plan (NDP) serve as the framework for poverty reduction. The limitation of the PRSP in terms of sector focus is accommodated by the NDP. Both frameworks advance pro-poor income generating activities to boost employment and reduce poverty. Although trade plays a critical role in poverty alleviation, both papers do not offer any explicit role that it must play in the process of fighting poverty.

3. 0. Trade Performance

Zambia's merchandise trade performance is greatly influenced by the trend and performance of the copper sector. As table 1 below shows, the merchandise trade as a share of GDP declined from the average of 61 % between 1995 and 1999 to as low as 54 percent in 2000. However, the value of trade increased to 77 % in 2004 mainly because of the improved export of minerals and huge imports mostly of oil and capital goods for the mining sector. The overall performance of merchandise trade has been poor as reflected by the rapid growth in the imports to GDP ratio compared to the almost static exports to GDP ratio. The large ratio of imports over the exports has been responsible for the balance of payment problems that the country experiences.

Table 1:Selected Trade Performance Indicators

	Average 1995-1999	2000	2001	2002	2003	2004
Merchandise Exports (US$ m)	974.8	746	884	916	1137	1587.9
Merchandise Exports (%GDP)	30.61	23.6	24.3	24.31	26.44	33.21
Merchandise Imports(US$ m)	-964.5	-978.8	-1253	-1253	-1390.5	-1727
Merchandise Imports (%GDP)	-30.87	-31	-34.5	-33.5	-32.42	-36
Merchandise trade (%GDP)	61.4	54	58	57	58	77
Current Account Deficit(US$ m)	-485.4	-597	-730	-649	-636	-642
Current Account Deficit (%GDP)	-15.76	-18.9	-20	-17.2	-14.83	-15.06
Trade taxes (%Total gov Revenue)[b]	27.2	30.57	33.25	34.12	28.86	26.08
None Traditional Exports (US$ m)	267.4	249	495	357	407	485
NTE[a]/Total Exports (%)	28.65	33.4	33.7	38.9	35.89	30.54
Merchandise Terms of Trade	90.4	89	77	73	72	67
Copper prices 1991 =100)	91.5	77.5	67.3	66.7	69.1	71
Copper Revenue (US$ M)	722.1	423.7	507	510	654	1011.8
Minerals Production* ('000 Mt)	379.26	425.4	407.7	413.3	424	469
Net BOP support (%GDP)	3.1(1999)	0.9	1.9	1.6	0.1	1.3
External Debt (US$ m)	6387.9	6310.5	7270.1	6487.7	6272	6421

Source: MFNP, IMF Reports.
[a] NTE – non-traditional exports, * Minerals are Copper, Cobalt and Coal. [b] Excludes grants

Zambia's vulnerability to external shocks is reflected in its current account deficit that continues to widen. The deficit has grown from US$590 million in 2000 to US$ 593 million in 2003. The large trade deficits reflect increased imports, which stood at 34% and 36% of GDP in 2001 and 2004 against 24% and 33 % of exports over the same period respectively. This shows that Zambia is a net importer especially of capital equipment[3] (mainly for the reviving mining industry), oil, chemicals, steel and vehicles whose prices are mainly determined in the olygopolistic markets. Zambia's export earnings are low mainly because of the narrow export base, poor terms of trade and market access restrictions in the most developed countries. As figure 1 shows, while the commodity terms of trade have been declining the copper terms of trade have been on a recovery trend since 2002.

Huge deficits on the current account continue to weaken Zambia's Balance of Payments (BOP) position. In order to mitigate the deficits, Government is forced to borrow, especially from the IMF and bilateral creditors.

[3] Excess import of capital equipment is not retrogressive as they are used in the productive activities that generate more wealth and jobs and eventually contribute to poverty reduction.

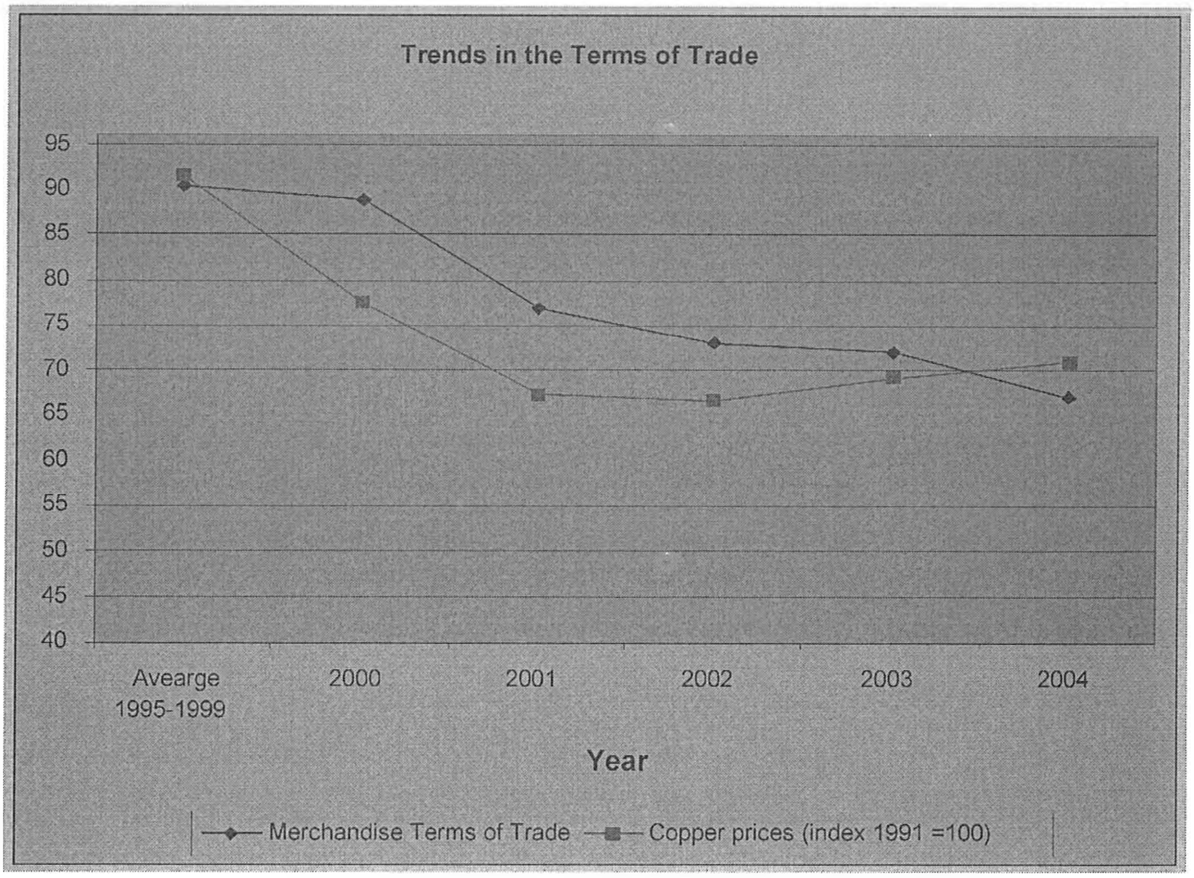


Figure 1: Trends in the Terms of Trade

One of the government's policies is to diversify and expand the export base by increasing the export of Non-Traditional Exports (NTEs). The proportion of NTEs in total exports has increased from about 10% in the early 1990s to an average of 28% between 1995 and 1999. This figure has grown to 35 % in 2003. The NTEs comprise mainly agricultural and horticultural/floricultural products.

3.1. Characteristics of Trade Flows

Zambia's trade is dominated mainly by two regions, namely the SADC region and the EU. Between 1999 and 2002 the EU accounted for an average of 50% of Zambia's exports. It is the largest market for Zambia's minerals and the second largest destination of Zambia's NTEs (constituting mainly horticultural, floricultural, cotton, coffee/tea, edible vegetables and other plants, tobacco and sugar and sugar confectioneries). The country has maintained a balance of trade surplus with the EU, which stood at about US$283 million in 2002. Of course, these positive balances have been significantly fostered by special non-reciprocal trade arrangements that Zambia (together with other ACP states) enjoys in the EU market[4].

[4] It will be important for Zambia and other sub-Saharan African countries to devise strategies for coping with new trade arrangements beyond 2007 when, it is expected. Economic Partnership Agreements (EPAs) arrangements will be widely implemented.

The EU imports from Zambia in 2002 totalled US$ 443 million against Zambia's imports of US$161 million (about 15% of Zambia's total imports) during the same year.

Table 2: Export Destination by major Trading Partners

Region/ continent	1999	2000	2001	2002	2003	2004
SADC	23.8	29.1	29.2	35.2	44.7	46.1
COMESA	11.1	10.4	8.7	12.0	9.5	13.3
EU	53.1	55	55.4	47.6	34.5	26.2
Rest of the World	13	4.9	7	5.8	11.3	14.4
World Total	100	100	100	100	100	100

Source: Compiled from Zambia's trade statistics CD Rom.

The other important trading partner is the SADC region. Between 2001 and 2003 Zambia sourced over 65% of her imports from the SADC[5] region. The exports to SADC have doubled from 23% in 1999 to 46 percent in 2004. In 2003 Zambia's exports to SADC totaled US$ 421 million whilst imports rose to US$ 1018 million registering a trade deficit of US$597 million. As such Zambia is a net importer in the SADC region. With the other regions, trade was as follows: exports to COMESA 10 percent, to USA 1 -2% percent, rest of the world 10 percent while imports from COMESA 17 percent, USA 2 percent and the rest of the world 1 percent. The change in the origins of imports and exports destination is profound with the RSA at the expense of the EU. The likely reason for this trend could be because of the geographical advantage, increased South African investment in the country as well as the emergence of the trade opportunities in the post-apartheid era.

[5] Over 80 percent of the imports are from RSA and export destinations are mainly RSA, Zimbabwe and Congo DR.

Table 3: Import Market Shares by Major Trading Partners

Region/ continent	1999	2000	2001	2002	2003	200
SADC	56.9	68.8	67.6	67.2	66.2	53.9
Rest of Africa	0.5	0.5	0.7	1.4	2	1.7
Total Africa	57.4	69.3	68.3	68.6	68.2	55.6
Asia	14.9	9.8	12.4	13.3	13.3	15.4
EU	21.2	14	15.1	14.6	14.1	23.6
Rest of Europe	1.2	0.7	0.6	0.6	0.9	1
European Total	22.4	14.7	15.6	15.2	15	24.6
Rest of the World	5.3	6.2	3.7	2.9	3.5	4.4
World Total	100	100	100	100	100	100

Source: Compiled from Zambia's trade statistics CD Rom.

3.2. Composition of the Export Products

Although Zambia exports a range of products, the traditional exports (copper and other minerals) comprise over two thirds of her exports. The non-traditional exports that have gained prominence over the years include cotton, sugar, cut-flowers, tobacco, textiles and semi-precious stones. These products together with the minerals constitute about 90 percent of Zambia's export earnings.

The EU is the major destination of the metal exports and the second largest destination of non-traditional exports after SADC. These products comprise cotton, tobacco, coffee, cut flowers and sugar. Overall the EU absorbed an average of 30% of Zambia's non-traditional exports in 2003. An identification of priority sectors for export promotion in Zambia by the Joint Integrated Technical Assistance Programme (JITAP) (2005) reveals that Zambia has competitive advantage or greater export potential in floriculture/horticultural products, cotton, and cotton products, tobacco, sugar and sugar confectionaries, fresh vegetables and paprika. These products and their expected performance are attached in the annex where the SWOT analysis is also done. However, the traditional exports still lead the market shares. But their pricing is not negotiable.

Table 4: Composition of Exports (% total Exports)

	1996	1997	1998	1999	2000	2001	2002	2003
Animal and Vegetable Products	3.5	3.5	5.1	4.2	7.3	6.23	4.29	5.60
Food Stuffs	3.5	2.5	3.7	6.0	4.7	5.53	6.19	5.87
Non-metallic Mineral Products	4.6	3.4	6.5	12.4	4.3	2.17	2.25	3.58
Chemical and plastics	2.9	4.1	2.0	1.0	0.6	0.70	1.10	0.97
Raw hides, Skins Leather	0.3	0.3	0.2	0.3	0.4	0.43	0.37	0.29
Wood and Wood Products	0.6	0.5	0.5	1.4	1.1	0.95	0.67	0.72
Textiles	4.5	5.7	6.2	11.8	4.8	4.45	4.70	5.20
Footwear, Head gear	0.0	0.0	0.4	0.0	0.1	0.08	0.14	0.24
Stones and glass	1.2	1.0	1.4	2.2	2.7	9.68	8.24	7.50
Metals	76.9	77.5	69.2	58.9	69.5	68.0	70.6	67.6
Machinery, electrical and transport	1.6	1.5	1.3	1.4	3.4	1.61	1.45	2.03
Other products	0.2	0.2	1.2	0.2	0.4	0.17	0.16	0.13
Total	100	100	100.0	100	100	100	100	100

4.0: Zambia's Trade Policies

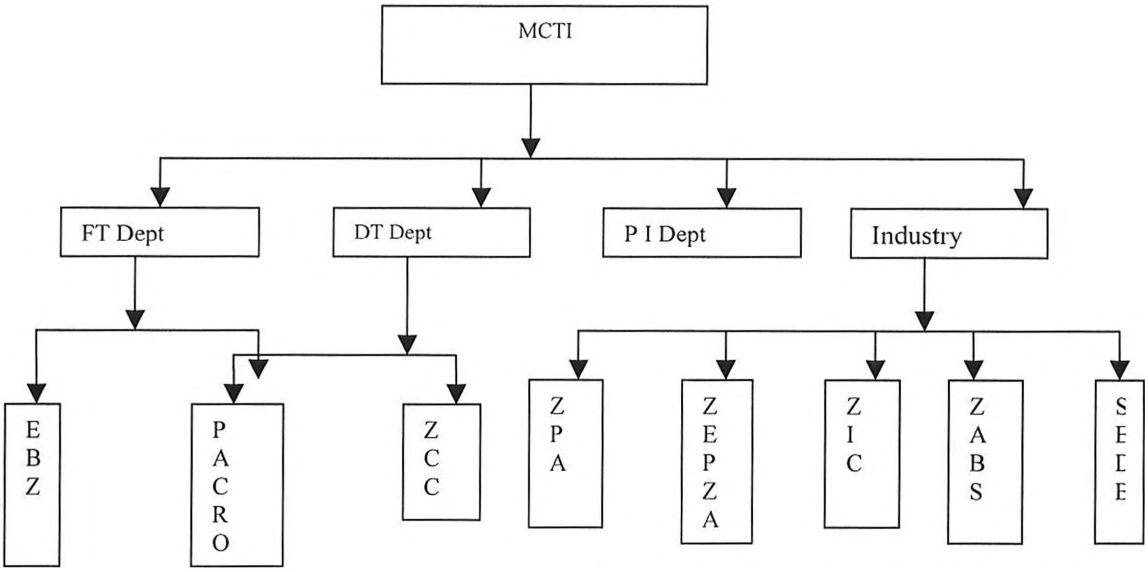
Since 1992, the government has implemented a comprehensive trade reform programme in the context of a broader liberalization package. The trade reforms included a significant reduction in import duties and other charges, the elimination of quantitative restrictions and export taxes, the introduction of a market-determined exchange rate, the introduction of a system of export incentives (duty drawback, manufacturing under bond) and the establishment of an Export Promotion Board. These reforms started to establish a more appropriate environment for encouraging diversification away from copper and for augmenting the growth rate. Based on these reforms, and using the trade restrictiveness index of the IMF, Zambia has one of the most liberal trading regimes in Africa.[6]

4.1: Trade Policy Formulation

Constitutionally, the formulation and implementation of trade policies is a preserve of the government through the Ministry of Commerce Trade and Industry (MCTI). Depending on the nature of the issues the MCTI consults with relevant ministries and other institutions. The Ministry also consults with the private sector through various means such as workshops on policy and sensitisation campaign sessions to which various stakeholders are invited. The implementation of trade policy is done by the ministry's statutory bodies as indicated in the figure below:

[6] However government tends to restrict the export of maize (the staple food) in some instances and the export tax is imposed on some goods like timber/wood and scrap metal starting 2005 budget.

Figure 2: Structure of MCTI



The Ministry consists of four key departments namely, the foreign trade department (FT), Domestic Trade Department (DT), the industry department and the Planning and Information Department (PI). As the figure above indicates, each of the departments oversees some statutory bodies that play critical roles in the policy formulation and implementation process.

The trade implementation structure in Zambia would adequately involve all interested stakeholders in the consultation process. However, there are a number of gaps in the actual implementation process. Internally the MCTI is supposed to be coordinating and monitoring the activities of the statutory bodies in order to avoid duplication and make them more effective. The lack of coordination of these institutions has led to overlapping and their becoming very ineffective in their mandates. This has led to some quarters calling for the merging of most of these institutions to form one body, the Zambia Development Agency.

4.1.1 Inputs in the Trade Policy and Negotiations Process

Regarding the process of developing national negotiation positions for regional and multilateral trade protocols, the structure that comprises the Department of Foreign Trade (in charge of coordinating all activities concerning negotiations and conducting the actual negotiations) forms the apex. Under it there are a number of committees with a wide representation drawn from the private sector, civil society[7] and Government, each of which feeds into the National Working Group on Trade. These Committees, their roles and membership are as tabulated below;

Table 5: Committees Involved in Negotiation Position Formulation

Committee/Department	Functions	Membership Composition
1 Department .of Foreign Trade	Coordination and trade negotiations	MCTI officials
2. Permanent Missions abroad	Presentation of the interests of the nation during the day to day activities in various countries	Government officials
3.National Working group on Trade (NWGT)	Collection of views from all other trade related committees or National Working group in order to develop national positions;	State and Non-state actors (Currently headed by people from private sector)
4. National Working Group on Services	Provision views to the NWGT on issues related to trade in services	State and Non state actors
5.AgricultureTrade Forum	Provision of views on the interests of the sector as it relates to international trade	State and Non state actors
6. National Export Strategy Group	Provision of information on the country's export priorities	State and Non state actors (Headed by chairperson from Private sector)
7. Agriculture Sanitary Phytosanitary Committee	Provision of views on issues of Sanitary and phytosanitary	Mainly composed of state actors
8. National working Group on EPAs	Preparation of positions for negotiation with the EU	State and Non-state actors
9. COMESA Committee	Provision of views on COMESA related matters	State and Non-state Actors
10. SADC Working Group	Provision of views on SADC related matters	State and Non-state Actors
11.National Working Group on AGOA[8]	Implementation of market access provisions.	State and Non-state Actors

As regards the implementation of trade as it relates to the regional and multilateral levels, the structure in place also has some weaknesses in the areas of representation, effective participation and consistency. The committees may be enough to adequately cover all the domestic, regional and multilateral trade areas of interest to the nation but the membership comprises almost the same people, making it difficulty for them to be effective and consistent in these committees. This is worsened by the fact that there are very few Zambians outside Government circles who have a good understanding of the regional and multilateral trading system. This not only slows down the process of consultation but also makes it difficult for the members to come up with meaningful positions.

[7] Civil societies like CSPR, CCJP and JCTR are represented by the Civil Society Trade Network (CSTNZ)
[8] AGOA refers to the American Growth Opportunity Act

In undertaking this task the Ministry lacks adequate capacity and is poorly resourced in the area of trade negotiations. The centre of all negotiations is the MCTI, where the FT Department has only about 7 officers who are capable of handling trade negotiations. The poor conditions of service have resulted in a high staff turnover. The low levels of staffing results in the team being reactive to the negotiations as the department cannot fully prepare for negotiations.

The few officers are expected to coordinate the on-going negotiations in Geneva on WTO, Brussels on EPAs and various other regional and bilateral agreements. For example, at the multilateral level the World Trade Organization (WTO), negotiations are conducted in Geneva. Though Zambia has a permanent mission, the staff there is not enough to take part in all the negotiations taking place on different issues[9]. In addition, the linkages between the missions abroad and the ministry are unstructured. This situation applies to all Zambian missions abroad where the trade and investment aspect is not adequately represented.

The trade negotiations are a complex and on-going process which require the involvement of all stakeholders in the country. The actual negotiations are products of wide consultations within countries and the negotiators merely present positions determined by the various stakeholders. These positions are developed in the various trade committees and national working groups outlined above. The representation in these working groups is not restricted only to state actors but open to all non-state actors interested in the process.

These national working groups are more or less institutionalised because they were formed with the consent of the Minister responsible for trade and government recognizes their inputs. It would be of great benefit to the nation if more non-state actors began to make inputs into the Government processes relating to trade negotiations. This would not only enrich the country's negotiating position but also influence the negotiations as the civil society is better placed to lobby for the interests of the majority of the citizens.

In order to effectively participate in the regional and multilateral systems, Zambia should pay particular attention to issues relating to capacity building and skills in trade negotiations for both state and non-state actors. The development of negotiation positions should always be based on impact assessment studies. This would enable the country have clear expected effects of any negotiation on domestic production and social welfare.

The country should also consider the issue of supply side constraints (like the high costs of production, low productivity and high freight costs), which are making our local production unable to take advantage of market access opportunities offered to developing countries such as AGOA, EBA, and the Canadian Initiative.

[9] Several meetings on the different issues take place at the same time daily and Zambia currently has only one officer responsible for trade issues. Thus Zambia is not represented in most of these meetings.

5.0: The Link between trade and investment policy in Zambia

Trade and investment policy and practice is a critical ingredient of poverty reduction in several ways. First, trade and investment, when based on ideal and sustainable flows, create opportunities for employment in the country. It is one of the principle mechanisms for income distribution as it generates income for the employed. Second, since trade and investment are important for tapping and transforming resources, they determine the use or misuse of resources. Investment and trade decisions directly affect land access, use and tenure systems, natural resources use and management and largely determine the pace of human development. Thus the promotion of investment and trade is to be emphasized in any development planning..

The general investment climate in the country promotes trade, both exports and imports, by way of incentives provided in the Investment Act. Among others, the Act provides incentives on income tax of non- traditional exports, income tax exemption on dividends from farming, recognition where double taxation agreements exists, allowing any investor to apply and operate bonded factory and provision for the declaration of Export Processing Zones.

The income tax incentives in the Investment Act (1993) promote exports because they reduce the amount of tax payable, thereby increasing profit margins. The Act provides that an investor will only be taxed on that portion of income which is determined by the Commissioner-General as originating from the export of non– traditional exports at a rate of 15%.

The Act also provides for the further promotion of exports by empowering the Controller, after consultation with the Minister, to license any area as an Economic Development Zone or Export Processing Zone (EPZ) under Section Fifty-five of the Customs and Excise Act. To this effect an Act of Parliament has put the Zambia Export Processing Zone Authority (ZEPZA) in place. The aim is to promote the exports through a number of tax incentives for the qualifying zones. However the authority has not been fully functional as debates on its implications on Government revenue from taxes is on-going. It is argued that the qualification of a number of companies to Export Processing status will greatly affect the Government revenue through forgone taxes. On the other hand, the amount of revenue to be obtained from the exports of these companies will in the medium term to long term be more than the forgone tax. The EPZs are an incentive for further investment in such export-oriented industries and at the same time promoting exports. It is a requirement that a company under this status must be exporting about 80% of the products produced under these conditions.

As regards importation, the Act provides an opportunity for an investor to apply and operate a bonded factory, under Section Fifty-five of the Customs and Excise Act. This facility assists to reduce time spent at ports of entry of products. It makes it easy for traders, especially in perishable products, to be able to transport their products to the intended markets before paying all the taxes due.

Zambia like many other countries in the world is currently competing to attract foreign direct investment (FDI). FDI is necessary and needed for each country mainly as a way of encouraging capital from outside, technology and skills transfer. Different countries have different ways in which they attract FDI; some invest in infrastructure to attract investment, while others (like Zambia) offer a number of tax incentives as a way of attracting investors.

Tax holidays are however not a pre-condition for investment in Zambia, although investors may be awarded a tax holiday if they negotiate for it. The domestic investors have not benefited as much as their foreign counterparts in terms of incentives offered under the Investment Act. This is basically because it is not well publicized that a local investor can also benefit from these incentives and the threshold of investment to qualify for some incentives is also too high for local investors to meet. As regards social responsibility both local and foreign investors are encouraged to engage themselves in community projects. Unlike environmental responsibility, which is enforced by the Environmental Council of Zambia, social responsibility is not enforced by any institution but only encouraged. This has led mainly to poor treatment and casualisation of labour

In addition to the above incentives, the exporters in the manufacturing sector also qualify for the Duty Drawback (DDB) initiative offered by the government. Under this scheme duties that have been paid on inputs used in the production of goods for export are refunded so that the exports are not rendered uncompetitive by the burden of such duty. The scheme extends to implied duty on some domestically sourced inputs. This is to encourage use of domestic resources and foster backward and forward linkages. The scheme does not discriminate among manufacturers as to whether they are foreign or domestic firms. The table below shows the total claims settled by Zambia Revenue Authority between 1998 and 2001.

Table 6: DDB Refunds

PERIOD	CLAIMS PAID	AMOUNT PAID (ZMK MN
Nov. –December 1998	1	9.6
January –December 1999	53	3,995
January –December2000	110	5,722
January –July 2001	67	6, 622.8
TOTAL	**231**	**16,349.9**

As indicative from above the DDB facility has not been popular among exporters. The number of the claims has not been growing at the rate it was expected. As such the Regional Integration Facilitation Forum (RIFF) undertook a study on why the scheme was not being fully utilized (only 20 firms were making the claims) in 2000. The major findings were that:

- Refunds delayed in most cases
- The DDB unit was under staffed
- Firms preferred a different type of scheme to the DDB
- Confidentiality of information was questioned. Firms felt that a different agency should take over the responsibility of administering the DDB from ZRA
- Lack of information on the required documentation

It is worthy noting that these issues are being attended to by the relevant authorities. Currently there are a lot of firms that are engaged in trade. They comprise local, foreign and large multinational firms. Annex 1 comprises exporting firms that have been randomly sampled from the Export Board of Zambia's leading exporters list.

The main outstanding issues in the trade policy and implementation in the country range from lack of comprehensive trade and industrial policy (lack of a formalized export strategy) to inadequate capacity to coordinate all stakeholders in trade matters by the MCTI. Zambia has never had a comprehensive trade and industrial policy document for a long time now. It is currently being drafted after the realization of the important role trade was playing in poverty reduction. There are also other trade related Acts that are still in the process of being amended, such as the Investment Act, Trade licensing Act and the revision of the Zambia Export Processing Zones Authority (ZEPZA) Act. These are very important pieces of legislation that are needed in order to develop a vibrant national economy.

6.0 Trade Protocols

Traditionally Zambia has taken pride in being in the forefront of signing agreements or protocols without digesting the contents and their impact on the economy. Currently Zambia is a signatory to a number of multilateral and regional trading agreements of which present different challenges and opportunities. In some cases a country may have a number of different agreements with Zambia that provide different opportunities for the Zambian exporter who may not qualify under one agreement, but may still enter that market under another agreement[10].

Currently, Zambia is a member of WTO, COMESA, and SADC; and a signatory to the Cotonou Agreement. It also benefits from non-reciprocal preferential treatment under the US African Growth and Opportunity Act (AGOA), many industrial countries GSP and the EU's Everything But Arms (EBA) initiative. Zambia and many other states in the region have an overlapping membership with SADC and COMESA within the Eastern and Southern Africa configuration. Past efforts to integrate the two bodies have proved to be politically difficult, with South Africa calling for SADC members in COMESA to withdraw their membership from COMESA. Although the two institutions currently have no intensions of joining together, they tend to collaborate on issues of common interest. We briefly discuss some of these arrangements in turn.

6.1: Common Market for Eastern and Southern Africa (COMESA) Protocol

This 20 member country Common Market of Eastern and Southern African States (COMESA)[11] was established on 8 December 1994 as the successor organization to the Preferential Trade Area (PTA), which had been in existence since 1981. COMESA members launched a Free Trade Area (FTA) on 1 November 2000 and intended to create a customs union with a common external tariff from 2004. The ultimate goal of COMESA is to

[10] This arises mainly due to overlaps in membership to various bi-lateral and regional bodies that have different agreements. For example, an exporter wishing to export to, Malawi may use either the SADC or COMESA Trade Protocol.

[11] Angola, Djibouti, Burundi, Comoros, Eritrea, Ethiopia, Congo DR, Egypt, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe (www.comsea.int)

establish a common monetary union by 2025 via a gradual process of intra-regional trade, financial and economic liberalization.

So far Zambia trades duty free with eight other COMESA FTA members and applies the Most Favoured Nation (MFN) duty rates to the rest of the members with a preference of between 20% and 90%.

Companies utilizing the COMESA preference require their goods to be accompanied by the Rules of Origin certificate. In this region, Zambia's main export markets are Congo DR, Malawi, Zimbabwe and Kenya and mainly imports more from Zimbabwe and Kenya. Zambia intends to negotiate the EPAs under this grouping, the result of which will greatly influence its relations with the EU.

6. 2. Southern Africa Development Community (SADC) Protocol

As an original member of SADC, Zambia signed the SADC Protocol on Trade in 1996 alongside the other member countries. The community comprises members of the Southern Africa Customs Union (SACU) and eight others[12]. The trade Protocol aims at establishing a free trade area by 2008. Thus member countries are phasing down the tariffs. Members divided their 8 digit tariff schedules into 3 broad categories denoted as A, B and C:

a) products intended for immediate liberalization (Category A) went to 0 duty when the Protocol came into force. The products in this category are mainly capital goods and equipment (e.g., agricultural implements)

b) products subject to gradual phase-down to 0 duty (Category B, e.g. textiles). Under this category, member countries will phase down the tariffs at different speeds/rates. The SACU members started at the adoption of the protocol, Zimbabwe and Mauritius will follow and at the last stage, Zambia and the rest will join the phasing down. This is meant to accommodate countries according to the level of their development.

c) Products whose duty will only be reduced at the end of the period (Category C). This class comprises products, like sugar, which are deemed *'sensitive'* by member countries.

Within the SADC region, Zambia has bi-lateral arrangements with Tanzania, Zimbabwe and Malawi and is negotiating for one with Congo DR, its second most important export market. South Africa currently stands out as a major source of Zambia's imports (in terms of production inputs and commodities). It has also become the major destination of Zambia's non-traditional exports.

6. 3: Zambia and the United States of America (AGOA)

The offer for increased market access to the United States of America comes in the form of the US Africa Growth Opportunity Act (AGOA) enacted in 2000 by the US Congress. AGOA provides preferential access (duty and quota free) to the US markets for goods

[12] The SACU members are Botswana, Lesotho, Namibia Swaziland (BLNS) and Angola, Congo DR, Malawi, Mozambique, Mauritius, Tanzania, Zambia and Zimbabwe

eligible for the period between 2000 and 2008. However, this offer is accompanied by a number of conditions that range from pursuing market based economies, democratic practices, protection of intellectual property rights, to elimination of barriers to US trade and investment. As a signatory Zambia can export a range of products, which includes apparels, yarn, cut flowers, certain vegetables, hand crafts, etc[13].

In spite of this opportunity, Zambia's trade with the USA has been very low, averaging at less than 2% of Zambia's exports and 2.5% of its imports. However, yarn has been exported through third country eligibility under AGOA, mainly through Mauritius, Botswana and South Africa. Among the main reasons for the low trade volumes with the USA are the following:

- The inabilities of the local firms to ensure consistent supply to the potential buyers in the USA due to the supply side constraints. This is compounded by the fact that firms do not come together to target the markets
- The high costs of transportation that make the products uncompetitive (price wise) by the time they get to the USA market
- The lack of information among the producers about the existence of this opportunity.
- Although the categories of the qualifying products are broad, the specific products that may enter in the USA are few (in the vegetable family only one type is currently eligible). This reduces the amount of the exports to the USA.
- There are also wide ranges of technical barriers that range from sanitary and phytosanitary requirements (SPS) to subsidies that hinder the entrance of the Zambian products into the USA market.

6.4: Canadian Initiative

Zambia as a Least Developed Country (LDC) is eligible to benefit from the Canadian Initiative which provides duty free and quota free access of most goods into the Canadian markets. The qualifying countries receive special tariff preferences under the least developed country tariff treatment.

The qualifying countries can only export if they provide legal documentation pertaining to: rules of origin, certification and direct shipment. The Initiative's ultimate goal is to stimulate investment in, and export of, LDC agricultural produce. However, dairy, poultry and egg products do not qualify.

6.5. General System of Preferences (GSPs)

General System of Preferences are non-reciprocal trade offers that developed countries have made to developing countries such as Zambia through the UN system. They are designed to allow preferential access to the market of the GSP-giving country to products from developing countries. In terms of the international trade laws that govern this (through the

[13] The range of products that qualify is said to be too narrow by the Zambian producers who see this as a technical trade barrier to increased market access to the USA.

WTO), the GSP-giving country is not allowed to discriminate against any developing country that it already grants most favoured nation (MFN) status to. Examples of the GSP are the EBA initiative, the Canadian initiative, etc.

6.6. World Trade Organization (WTO)

Zambia is an original member of the World Trade Organization that was established in 1995 to succeed the General Agreement on Trade and Tariffs (GATT) of 1947. As a United Nations Institution, the WTO oversees the rules governing the multi-lateral trading system. Its core functions include the following:

- Administering of trade agreements
- Serving as a forum for trade negotiations
- Settling of trade disputes
- Reviewing trade policies
- Supporting the development of trade policy in poorer countries via technical assistance.

The organization operates a rule-based system of negotiations, which is binding to all member states. The highest decision making body is the Ministerial Conference which convenes at least once every two years. So far meetings that have been convened include Singapore (1996), Geneva (1998), Seattle (1999), Doha (2001) and Cancun (2003). (See annex 3 for summary of the outcome of these meetings)

The Doha working programme was aimed at pushing the development agenda for LDCs that are members. The forth-coming ministerial conference will be held in Hong Kong in December 2005. The main agenda of this Ministerial Conference will be to reaffirm the Doha Development Agenda based on the *July package* which considers development issues such as market access for non-agriculture products, (NAMA), cotton, agriculture and special and differential treatment (SD).

The rule-based system of WTO comprises three major agreements:

- Multi-lateral Agreements on trade in goods
- General Agreement on Trade in Services (GATS)
- Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

WTO is a platform on which member countries can undertake their negotiations and make binding commitment to each other without violating the rules.[14]

Influencing Negotiations

In a bid to influence the WTO negotiations, Like Minded Countries (LMC) tend to group together and present their cases with a strong voice to the general negotiations. Mostly the negotiations have been revolving around the interests of the developed countries, the

[14] Annex 4 provides the interpretation of these rules.

developing countries and the less developed countries. The tendency so far has been that the LDCs come up with a common position, as do the developing countries in order to bargain for their common interests against the positions of the dominant trading powers -- Canada, the European Union (EU), Japan and the US. Historically, the positions of the dominant powers went unopposed.

Depending on the levels of convergence of interests, the LDCs usually join hands with the developing countries. Based on the numbers in the group, such groups become referred to as G- X (if there are X countries). The number changes as more countries join or drop out. So far a number of influential negotiating groups that have arisen include:

i. The Group of 21/22 (G-21)[15] developing countries, led by Brazil, Singapore and India, resolved to act as a bloc in Cancun. Its members stood for good outcome on agriculture issues.
ii. The G21/22 joined hands with the group of 23 less developed countries (G23), which had come together to put forward their demands on special products and the special safeguard mechanisms. This resulted in the formation of the G-45.
iii. On the other hand the 77 ACP countries were joined by China to demand for more transparency on the implementation issues, Special and Deferential Treatment (SDT) Issues and secure binding commitment from the developed countries on agricultural market access. Further this group did not wish the Singapore issues (i.e., investment, competition, transparency in government procurement and trade facilitation) to be tabled as they wished to do more consultations on them.
iv. The G-90 is a tripartite alliance of the Africa Union (AU), the African, Caribbean and Pacific Group (ACP) and Least Developed Countries (LDCs), forming a majority of developing countries in the WTO. Their main focus is on development concerns such as special and differential treatment, agriculture and Implementation-Related issues and concerns in the Doha Development Agenda (DDA)

Currently, Zambia is leading a group of 50 LDCs in a run-up to Hong Kong Ministerial conference to be held in December 2005. The role of Zambia is to chair the pre-Hong Kong meetings that intend to come up with the negotiation position of the LDCs. Thus Zambia will chair and guide the discussions as the leader of this group of countries.

Groups provide LMCs with a united voice on issues of trade negotiations, thereby strengthening their bargaining position. So far the interests of the LDCs and developing countries have been to secure more access to the markets of the developed countries and to reduce trade distorting interventions as defined by the amber, green and blue boxes[16]. These groups are also consolidating the move towards South-South solidarity.

There are also problems associated with conflicts of interests when negotiating as large groups. The conflicts arise in instances where the potential outcome of the position may

[15] Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela.

[16] Green box refers to only minimally trade distorting government expenditure on agriculture such as payment for natural disasters. This type of intervention is permitted. Blue box refers to the less trade distorting production linked government support to the agriculture sector. It is exempted from reduction commitment and is capped at 5% of the value of domestic production. Amber box refers to support generally considered to be trade distorting and is not permitted.

benefit some member countries and damage the economies of other member countries. For example, while the EU subsidies on sugar are condemned by some states (especially non-ACP member states) and call for their elimination, countries like Zambia that benefit indirectly from the subsidies through the above world price that their sugar receive would naturally support the subsidy and call for an increased quota. Its worth noting that this preference is likely to be eroded as the Everything But Arms (EBA) Initiative becomes more popular and the EU continues to liberalise the sugar markets.

6.7. 0: ACP- EU Cooperation

Background

The African - EU partnership can be traced from the independence days. Most African countries negotiated with the European Economic Community the predecessor of the EU for preferential economic relations which gave rise to the African- EU partnership. This later on became the ACP-EU cooperation when the Caribbean and Pacific Countries joined the group within the framework of economic, cultural and political cooperation. By 1963, the prevailing African-EU partnership was based on reciprocal and non-discriminatory terms in a form of a free trade scheme as envisaged by the EPAs currently under negotiations.

6.7.1 The Lome Convention

In 1975, these relations were revised, giving birth to the Lome Convention. Between 1975 and 2000, the Convention was renewed four times, embedding the partnership arrangement with a combination of aid, trade and political aspects.

On trade, the system ensured that agricultural and manufactured products entering the EU from the 77 ACP member states that are not in direct competition with those covered by its Common Agricultural Policy (CAP) were not subject to customs duties or quantitative restrictions. The EU was not reciprocating so as to provide the ACP states the possibility of basing an industrial development behind protected borders. Special protocols were agreed for trade in bananas, beef, sugar, veal and rum, the products that are in direct competition under the CAP. The EU buys the agreed quantities (quotas) of these goods at a price significantly above the world prices. The political dimension entailed respect for human rights, gender equality and good governance while financial support could be accessed through bilateral cooperation or at regional level for infrastructure development as well as supporting the adjustment programmes that ACP countries were implementing.

6.7.2 Cotonou Agreement

The Cotonou Agreement is a successor of the IV Lome Conventions. It provides the 77 African-Caribbean and Pacific (ACP) countries non-reciprocal trade preferences to most imports originating from the member countries. A number of Zambian products are allowed to enter the EU duty and quota free. The EU is one of the largest destinations of Zambia's exports. Among the products that have gained prominence in the EU other than copper and other minerals are cotton/yarn, sugar, tobacco, cut-flowers, and vegetables.

Furthermore, Zambia as a least developed country benefits from the EU's GSP known as the Everything But Arms (EBA) initiative, which was established in 2001. The initiative allows the Zambian exports to enter the EU markets duty free and quota free. The EBA covers all exports from LDCs apart from, arms and ammunition.

Despite all these initiatives however, Zambia has no sugar protocol quota[17] and only exports it under the Special Preferential Sugar Arrangement. Under this special preference sugar arrangement, she is allocated an annual quota for sugar exports to the EU. Zambia has a great potential to export more than the quota allocation.

6.7.3: Renewing the Partnership -Economic Partnership Agreements (EPAs)

Although the Lome partnership was seen as the best vehicle to deliver development in the ACP states, it has not met this objective. Africa has continued to lag behind the rest of the LDCs in terms of poverty reduction, economic development, and integration in world trade. For these reasons the EU has called for the renewal of the partnership. In addition the Lome conventions violated the WTO rules because:

i. They were not extended to all developing countries and thus, did not fulfil the obligations of generalized system of preferences;

ii. They were not reciprocal, i.e., did not include reverse preferences for imports from the EU extended by the ACP countries permissible under WTO rules for regional free trade arrangements.

iii. The other reasons for renewal of the ACP-EU partnership include the geographical refocusing of the EU towards Eastern Europe and Southern Mediterranean states as well as the donor '*fatigue syndrome*'.

Because of i. and ii. above the ACP-EU partnership needed a WTO waiver to maintain the Lome trade regime. This waiver expires on 30th December 2007, after which the new WTO compatible arrangement will be enforced. The EPAs are regarded as the answer to this problem. Under the EPAs, the ACP countries will receive the same preferences. But unlike previously, ACP countries may have to grant the EU unrestricted access to their markets for almost all products to a ten-year transition period. The EPA will essentially be a free trade area (FTA) arrangement that will replace the non-reciprocity trading arrangement currently advance by the EU to the ACP countries under the Lome convention

The objective of the EPAs is to enable the ACP states play a full part in international trade and advance poverty eradication and sustainable development. The agreement to be secured is expected to run for 20 years with possible revisions every five years. The EPAs rest on the following five interdependent pillars:

- A comprehensive political dimension consisting in an enhanced dialogue and a special focus on conflict prevention and resolution, as well as on governance issues, human rights and the rule of law
- A set of participatory approaches including greater emphasis on the role of the civil society,

[17] Annexed to the Cotonou agreement

- A focus on poverty reduction, a central role for the private sector and regional integration in development strategies
- A reform of fiscal cooperation, through the simplification and enhanced flexibility of the financial instruments of the partnerships as well as the introduction of performance criteria in the allocation of aid
- An emphasis on trade and economic cooperation that puts regional integration at the forefront and extended cooperation on non-trade issues

Negotiation process

The ACP countries are to negotiate the partnerships as groups or as individual countries. Zambia has provisionally opted to negotiate the EPAs under the Eastern and Southern Africa (ESA) Configuration.[18] Currently the EPAs negotiations are in their second phase of negotiation.
The first negotiation phase is the All ACP/EU negotiations held in Brussels at the ambassadorial level, which resulted in the Ministerial meeting in 2003. The aim was to establish the process and substance of negotiations. The second stage is referred to as the EPAs negotiations at Regional Level. The third phase is the continuation and finalisation stage which will run between January 2006 and December 2007.

The ESA region has agreed on the negotiations guidelines and has agreed to set up a Regional Negotiations Forum. Each Member state is also required to set up a National Working Group comprising Civil Society, Non-state actors/private sector. Zambia has so far set up this group, representing all the concerned parties. The ESA group wishes to consider the negotiations from six clusters as follows;

- Development issues
- Market access
- Agriculture
- Fisheries
- Trade in services
- Trade related areas

6.7.4 Potential Impact of the EPAs

Although the EU dubs EPAs as the only way forward, the serious point of concern is on their ability to contribute to the general objective of the ACP-EU partnership of poverty eradication. Economic theory predicts that free trade areas between highly industrialized rich regions and economically underdeveloped poor countries will tend to disproportionately favor the economically strong, unless very specific measures are taken to ensure balanced benefits. Most studies on the likely impact of EPAs point to their effects on fiscal revenue, their impact on employment, the need for resource adjustment as well as general welfare. Among the studies that have been undertaken are the EUROSTEP (2004) (it generally assessed the expected impact of EPAs on three African countries), the Southern and Eastern

[18] This configuration comprises 16 COMESA member countries.

Africa Trade Information and Negotiations Institute (SEATINI)[19] (which generally provides the civil society perspective) and finally, Karingi et al (2005) (assesses the potential impact of the EPAs on ESA region. In spite of using different methodologies, the conclusions of the studies are similar. Thus we dwell on the findings on Zambia mainly using the findings of Karingi et al.

Using WITS/SMART in data analysis, Karingi et al estimated the potential socio-economic effects of implementing the EPAs in the ESA configuration. The simulation exercise yielded the following results for Zambia:[20]

Indicator	Amount in US$ m
Trade Creation	31.7
Net Trade Diversion	-10.4
	a. Fiscal Implications
ESA's diverted trade	-0.433
EU'S trade gain	42.1
Revenue short fall	-15.8
Consumer Welfare	3.4

Source: Compiled from Karingi et al (2005)

One of the major fears of the ACP countries is the likely loss of revenue from trade taxes as experienced in all FTA. Unlike in the EU, customs duties in these countries are not protectionist measures but financial resources. Removing them will result in less budget funding for social programmes for the poor and would probably also result in higher tax burdens for citizens in order for governments to make up for lost revenue.

From the simulation results above, it is clear that Zambia will have to cope with revenue loss of US$15 million once the EPAs are concluded. Although this figure forms a small proportion of the Zambian budget, it is only indicative of the potential losses that may be higher than this. However, it is worth noting that there has been a shift in Zambia's trade from the EU to SADC region. In 2003 trade taxes on EU imports accounted for only 15% of the total import taxes. This is low compared to potential losses in countries like Ghana and Kenya, which could lose up to 20-30% of their government revenue. The EPAs generate revenue deficits that will have economic and social aspects. The countries may resort to income and consumption taxes, which have growth and equity consequences. The COMESA study (2002) puts the potential total tax revenue loss for the ESA region at 6% of GDP or 25% of the trade taxes.

b. Trade Creation and Diversion

As the table above reveals, the trade effects indicate that there will be significant trade creation for the EU goods. The reciprocity principal of the EPAs will lead to expansion of trade. The trade creation effect outweighs the trade diversion effects. Whereas trade creation amounts to US$31.7m, the EU's gain against Zambia is estimated to be US $42.1 million.

[19] www.seatini.org

[20] Its important to interpret the results with caution as GTAP data base used by Karingi et al may have data that is too aggregated to give accurate results.

Trade creation will result in increased flow of EU imports at lower cost than Zambia's other import sources, especially the regional trade partners. Zambian producers will face stiff competition from EU producers. Since Zambian firms have not fully adjusted from the import substitution industrialization and the impact of the structural adjustment programme, they face adverse competition from the efficient EU producers. As COMESA (2002) noted, the price and quality competition from EU-based firms to local firms will lead to de-industrialization, attendant loss of jobs, unemployment, poverty, loss of livelihoods and barriers to entry of new firms.

However, the exposure of local industries to external competition is perceived as a positive element towards achieving efficiency in the region.

c. Welfare Implications

The trade creation effect of reciprocal trade under the EPAs arises from the displacement of local producers that are perceived to be inefficient. Trading creation will imply that importers will source cheaper products from the EU. Based on Karingi et al, the impact of the tariff changes on consumer surplus will be US$3.3 million. However, their method used to measure effects of the reciprocal principle of the EPAs underestimates the total welfare changes in that only the consumer surplus is accounted for while the producer surplus is not captured in the model. COMESA observed that consumers may welcome a variety and potentially lower priced goods, but subsequent factory closures due to de-industrialization may dampen and possibly wipe out the welfare gains.

d. Other Potential Effects of Reciprocal Trade with the EU

The EUROSTEP (2004) and SEATINI, studies also provide the Civil Society perspective on the potential effects of concluding the EPAs in their current form. These include the following:

- Delivery of basic social services in the hands of non-national private sector operators as a result of selling off of essential public services to European transnational corporations under privatization agreements: the provision of health, education, and other basic social services will only be available to those who can pay for them. Low-income groups will have less access to fewer basic social services

- Opening up to European competition for all government tenders: local companies who derive their income from government contracts (supplies, services, etc.) will have to compete with the efficient and experienced EU companies in bids and profits from these transactions will be repatriated as a result of "investment protection" deals as well as our highly liberalized foreign exchange market.

- Dumping of cheap EU agricultural surpluses (dairy products, cereals, beef, etc.) will threaten the viability of agriculture and agric-processing industries, particularly for small scale farming sector that does not receive state support. The result will be the collapse of the rural economies, and increased impoverishment and food insecurity particularly amongst women who are the backbone of the agricultural sector. It is clearly unfair to expect Zambian farmers to liberalise in the face of the EU farmers continued protection in form of the CAP. An average EU farmer receives 100 times more in agriculture support than the annual earnings of their competitors, an African peasant farmer.

- Zambia's open door policy and investment measures that do not put foreign exchange controls may result in continued capital flight. Government would not be able to give different treatment to local entrepreneurs as a means of supporting them to survive competition[21].

- Dispossession of indigenous land owners and lost livelihoods to give way to operations such as European tourism and mining "investors."

The Overall Impact on Poverty [22]

Generally, it is difficult to provide an assessment of the consequences on poverty resulting from liberalizing trade with the EU. However, this can be traced through its impacts on:

- government revenue derived from import duties that could be used on poverty reducing activities,
- agricultural production,
- industrial development, and
- the prices of the goods that the poor consume.

The other key agricultural sectors that may be greatly affected by reciprocal trade with the EU include: the dairy and the poultry industries. In a nutshell, the export-crop farmers (including those in out-grower schemes), livestock farmers, salaried and informal sector operators as well as the unemployed are likely to be made worse off than better off by the implementation of the EPAs once concluded.

6.8 Everything But Arms Initiative (EBA)

The EBA initiative was launched in 2001 when the EU's General Affairs Council adopted its Generalized Scheme of Preferences (GSP). The EBA initiative extends duty and quota free access to all products originating in LDCs, except arms and ammunition.

However, three most sensitive products are not liberalized. These include: fresh bananas, rice and sugar. The liberalization of these products is expected to take a longer period of time.

The main difference between the EPAs and the EBA initiative in terms of trade is that the EBA initiative is available to all LDCs at the same level of development in conformity with the WTO's most favoured nation (MFN) clause while the EPAs are just for the ACP countries and capture a wider level of cooperation apart from trade.

[21] This is more potent especially if the Singaporean issues are adopted and embraced by the WTO members.
[22] In view of the potential bad effects of the EPAs on African Countries, Organisations like SEATINI have called NGOs to outrightly reject the negotiations on the EPAs.

The EBA initiative is linked to the cumulative systems available under the GSP and the Contonou agreement. The LDCs that will benefit from the EBA will lose the opportunity of fully cumulating with ACP partners the incentives available as a party to an EPA.

Although the EBA initiative introduces substantive market access improvements for all LDCs, it has a host of disciplines and various limitations which include: the unilateral and unbound character of the GSP, limited time frame and the possibility of temporary withdrawal of preferences and its rules of origin are less liberal than those offered to ACP countries.

Zambia is currently benefiting from the preferences offered under the EBA initiative, especially on sugar exports. Zambia can choose to retain the EBA and withdraw from the EPAs. Undertaking this option will mean that the impact of the EPAs on the social and economic developments will be largely through its membership in COMESA and SADC

Currently all but four ESA states as LDCs qualify for the EBA initiative. Hence, they are not bound to enter into an EPA with the EU that result in a loss of EBA preferences. Therefore, Zambia/ESA can opt to retain the EBA preferences and not conclude the EPA with the EU. Nonetheless they are set to negotiate the EPAs.

7. 0 Impact of Subsidies and Quotas on Agricultural Goods

Topping the list of the '*unfinished business*' agenda item for the developing countries has been agriculture, an area where the European countries have maintained their notorious protectionist stance under the Common Agricultural Policy (CAP). The protective policies are more evident in the sugar and cotton sectors.

Most of the agricultural products originating from Africa, subject to meeting the stringent requirements, enter the EU market on duty and quota free basis. Under the EU's CAP, seasonal quotas are applied to imports from the ACP countries. This restriction denies the LDCs, Zambia inclusive, of the chance to sell their produce. However, more notorious is the issue of subsidies on cotton and quotas on sugar. Both measures affect trade through the pricing system.[23]

7.1 Cotton Subsidies

The world cotton prices have been unstable and declining. The main reasons for the instability include the unpredictable changes in production and supply from the world's largest producers that are India, Pakistan, China, USA, Brazil, Uzbekistan, Australia and Greece. The Indian and Chinese producers mainly supply their domestic markets while the USA, Brazil, Uzbekistan, Australia and Greece together export the largest amount of cotton, which account for 70%. The African producers, mainly from West and Central Africa account for about10% of the global supply. However, they produce the best quality and are about twice more efficient than the American producers.

[23] See the Annex no:3

The developed countries have traditionally supported their cotton producers. In 2001/2002, over a fifth of the world producer earnings came from the government support sector. The USA provides the greatest subsidy support to the sector, amounting to US$2.3billion. This is followed by China which provided US$1.2 billion and the EU that provided US$700 million to Greece and Spain. Subsidies lead to surplus production which is offloaded on the world market at subsidized prices. This depresses world cotton prices, seriously damaging the LDCs that rely on the crop for the foreign exchange earnings. Hence cotton from LDCs becomes less competitive as the subsidies make the subsidized farmers more competitive taking away the markets (if not, then depressing the prices and eventually revenues) from the poor African farmer. The dumping of cotton on the world market actually depresses the Liverpool cotton price index which reduces the revenues of exporters and discourages production by local farmers.[24]

An ODI website[25] study observes that there could be price increases of 18-28% if subsidies were removed. Depending on the market structure for cotton, LDCs' earnings would increase from US$610 million to US$3,250 million. West and Central African countries would gain between US$94 million and US$ 360 million.

This has policy implications. Since the subsidies by the EU and USA depress the world price and reduce the income of LDCs, reducing these subsidies whether through negotiations, national action or dispute settlement via the WTO would increase the incomes of the poor countries and the poor people in them.

In 2004, Brazil actually sued the USA for subsidizing the cotton sector. The ruling was in the favour of Brazil. However, real practical steps must be taken by the developed countries to reduce the trade distorting interventions as defined by the amber box.

7.2: EU Sugar Regime

The EU sugar regime was launched in 1967 under the CAP. The EU sugar is produced from beets (a temperate root crop) as opposed to cane sugar that is mostly produced by the developing world. Although the EU produces a third of the world's sugar, its production costs are among the highest in the world and yet is one of the largest exporters in the world. To achieve this, the EU sugar regime rests on three pillars: high guaranteed prices; import protection and export subsidies.

A sugar export to the EU is one of the major sources of foreign exchange in Zambia. The sugar exports to the EU proceed under either the sugar protocol (annexed to the Cotonou Agreement) or the Special and Differential Sugar Arrangement (where quotas are allocated annually based on deficits of other exporters). It can also be exported under EBA for the LDCs. The sugar protocol (zero quota) allows Zambia to export 20,000 tons under the special preferential sugar arrangement and about 7150 tons under EBA arrangement. Zambia has the capacity to increase the exports of sugar to the EU but is constrained by the available quotas. The zero quota arrangement only allows the export of refined sugar with polarity above

[24] Seeh http// www.eurostep.org
[25] www.odi.org.uk

99.5%. This limits the quality of sugar that Zambia can export into the EU under preferential conditions.

Zambia has been advocating for a better formula of sugar quota allocation under the Special and Differential Sugar Arrangement. Instead of distributing the deficit equally among all ACP member countries, Zambia's request is that a formula that ensures that those countries that do not benefit from the Lome sugar protocol be allocated larger quotas than those that have guaranteed sugar quotas.

Under the ACP-EU sugar protocol, the EU buys a fixed quantity (about 1.3 million tones) of quality sugar each year from ACP producers at guaranteed prices linked to the internal EU price which is two to three times higher than world prices. Changing the quality of the sugar export is usually penalized with high bound tariff rates of up to 135%. Apart from the limitations in the exportable quantity, the EU intends to reduce the internal price of sugar. This problem is compounded by the EBA policy that intends to scrap the quotas and tariffs for sugar exported by the LDCs to the EU by 2009. This may be disastrous to Zambia's sugar industry as it may not be able to compete with the LDCs that have cheaper production costs. On the other hand it will provide Zambia with chance to export as much sugar as she can.

8.0: Linkages among Trade, Debt and Poverty

Trade liberalization is one of the major components of conventional economic policy reforms that have occurred in the last two decades. The major argument for free trade is embedded in the view that trade improves a nation's resource allocation and economic growth. The experience based on the Asian Miracle so far reveals that countries that pursue export-oriented policies do economically perform better than those that pursue inward-looking policies. It is agued that trade broadens consumer choices and provides producers with a chance to generate more income from the broadened markets. In terms of debt, unfair trade has traditionally been one of the key triggers of debt. This can easily be traced empirically.

8.1 Trade and Poverty

It is not easy to trace the direct impact of trade on poverty mainly because most of the links between the two are case specific. Trade will always create gainers and losers depending on the owners of the factors of production that are employed in the export sector. Among the ways trade is linked to poverty are the following:[26]

a. Trade, Poverty and Labour Markets

The classic link between international trade and poverty in LDCs is via the labour markets. If international trade allows a country to export more labour intensive goods, then it increases the demand for labour. If the poverty incidence is high among the people who are actually or potentially part of the labour markets, increasing demand will help alleviate poverty. Otherwise, the opposite will occur.

[26] Other ways in which trade affect poverty i.e., pricing systems, shocks and technology are discussed in the Annex 1.

In Zambia, some of the key exports sectors like the sugar industry, tobacco, cotton, paprika and the horticultural and floricultural farming are labour intensive. The country can harness these sectors to use the production and export of agricultural commodities as a vehicle to poverty alleviation and source of the scarce foreign exchange for debt liquidation. If the international prices are attractive, the farmers can also switch from growing low value crops to high value crops, like cotton, for export.

However, some of the high value export products (like floricultural/horticultural) are capital intensive. The poor cannot easily invest in their production. Thus they resort to selling their labour to the capital owners. The conditions under which they work are very pathetic (e.g., green houses), they are paid very low wages and are overly exploited. This should be a source of concern.

Secondly, trade liberalization in Zambia has led to the steady growth of the informal sector, which employs a large proportion of the labor force in terms of both self-employment and paid employment. Zambians have freedom of choice in their business activities emerging from cross border trade. Further liberalization at the regional level with the formation of the COMESA FTA has indeed led to the emergence of large markets like the COMESA open market which offers an alternative livelihood for most of Zambia's retrenched and formally unemployed people[27].

The impact of trade liberalization on the domestic prices can impact negatively or positively on the poor. Usually, trade lowers the domestic prices. In this way, it helps make things be cheaply available to the poor, hence help reduce poverty.

b. Taxes and Spending

The second major static link between trade and poverty is through taxes and government spending. Trade is one of the major sources of government revenue in form of trade taxes, which forms a very large component of government spending. In Zambia, trade taxes form about thirty percent of the total government revenue (excluding grants). Trade liberalization that reduces tariff revenues can exacerbate poverty. The presumption is that falling revenues can curtail social expenditures and other poverty alleviating policies and or government can end up levying new taxes in staple and other goods consumed by the poor. This reduces the poor people's purchasing power[28]. Although this needs further verification, it is most likely that government revenue generated from import taxes on goods originating from the EU will be lost once the EPAs are concluded due to preference erosion. Thus, governments and civil society must advocate for fair trade[29].

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[27] Whether the businesses being generated from trade generate enough income or not remains an empirical question.

[28] This move has been observed during the SAPs. Countries that reduced tariffs under the guidance of the IMF/WB programmes were urged to use indirect taxation like introduction of Surtax (VAT). If such taxes are imposed on goods mostly demanded by poor, then it exacerbates poverty. Revenue loss due to trade liberalization actually forced Tanzania to withdraw from COMESA.

[29] Fair Trade is a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South.

8.2 Trade and Debt

Debt and trade are inextricably linked. The balance between imports and exports actually measures the size and direction of international borrowing (the current account balance).
For Zambia, the present debt crisis is traced from the 1973/5 oil crises and collapse in the international terms of trade. Zambia's imports exceeded the export earnings generating a balance of payments crisis (due to low demand in the West) as well as the decline in the volume and price of copper. Coupled with low domestic savings, the balance of payments deficit could only bc mitigated by external borrowing from the International Monetary Fund (IMF), private, bilateral and commercial lenders to pay for the importation of capital equipment, factor inputs and consumer goods amid the deteriorating terms of trade. The unfair trade rules left Zambia in debt and have allowed the creditors to continue imposing unfair trade conditions. In addition, the debt situation was exacerbated by the falling demand for commodities produced in the LDCs by the western consumers in preference to the highly subsidized and cheaper locally produced items.

The relationship between debt, trade and finance is a very important factor and must make part of the holistic policy environment which leads to development.

The achievement of the HIPC completion point that aims at making Zambia's debt sustainable is a welcome idea. However, it should be only a component of a more holistic strategy that should focus on increasing market access and developing supply side capabilities. The following are some of the issues to note about the linkage between debt and trade.

i). Market Access and Debt

Overseas market access restrictions can impede the ability of indebted countries to earn the hard currency they need to service their external debt, and to avoid resorting to further unsustainable borrowing. Removing the marginalisation of LDCs like Zambia in global trade, and trade policy reformation accompanied by market access for their exports need to be the central part of debt reduction.

Closely related to market access is the issue of foreign direct investment (FDI). Trade liberalization that attracts (FDI) has desirable effects on the external debt structure and indebtedness of a country. FDI acts as a cheaper source of foreign capital than debt. It also boosts domestic productivity and exports.

ii). Trade Balance, Balance of Payments and External Debt

The impact of trade on debt can also be traced from the fiscal policy and the BOP position as follows:

- **Impact of Declining Terms of Trade (TOT):** the structural decline in the TOT has a negative impact on the current account balance and indebtedness. Declining export prices affect fiscal and external accounts negatively, leading to reduced public consumption and investment, and force private companies due to lack of export receipts to reduce imports of productive inputs thereby preventing the diversification of the local production. The poor TOT undermines a country's ability to access the international market on attractive terms. This can foster capital outflow, draining the foreign reserves and eventually forcing government to borrow to match the BOP gap generated by private outflows. If the interest rates on the external debt continue to be high, and the export prices continue to plummet, the BOP deficit will continue to widen making more borrowing and indebtedness inevitable and rendering the efforts to make debt sustainable fruitless. As table 1 shows, Zambia's net BOP support in terms of grants from cooperating partners stood at 1.6% of GDP in 2002 and at 1.3% of GDP in 2004 which is slightly higher than what Zambia spends on health annually.

- **Fiscal Channel:** This is the key link between trade and debt. Usually the impact of trade liberalization on fiscal revenue is negative for countries like Zambia that depend on trade taxes for their budget. In 2003, trade taxes accounted for 30% of total government revenue. The fall in trade taxes may be offset by external borrowing in order to meet the pro-poor expenditures. This increases the debt stock which is a disincentive to both local and foreign investment and therefore to generate economic growth and enhance trading prospects. This is so mainly because of two reasons:
  a. If external debt is very high, government may be forced to borrow domestically to service foreign debt. This tends to increase interest rates and crowd out both public and private investment
  b. If the debt is too high, government may also impose higher taxes to generate sufficient funds to repay the debt. High taxes lower the profit margins and thereby discourage investment.

The available evidence in Zambia shows a very strong direct link exists between domestic and external debt via the levels of servicing. Government traditionally resorts to domestic borrowing to bridge the loan once it can't service the foreign loans. In 2002, 40% of the GRZ's domestic debt was meant to service the external debt as a bridging loan[30].

8.3: Linkage between Debt and Poverty

There is a strong linkage between poverty and external debt. In Zambia, international debt poses a serious obstacle to human development as the country is forced to use scarce resources to pay creditors rather than to invest in the social sectors such as health and education of her people. A snapshot examination of Zambia's debt data vis-à-vis social sectors expenditure reveals that Zambia spends more money in debt service than she does in education and health. As the figure below shows, Zambia's debt service as percentage of GDP stood at 8%[31] of GDP in 2004, while that of education averaged at 3.2%. In addition to the redirection of resources from social sectors, debt diverts resources from investment, creating a debt overhang.

[30] See Mphuka (2004) the link between domestic and external debt: implications for poverty- a Jubilee-Zambia/Debt Project Report
[31] This is much lower than before Zambia received some interim relief.

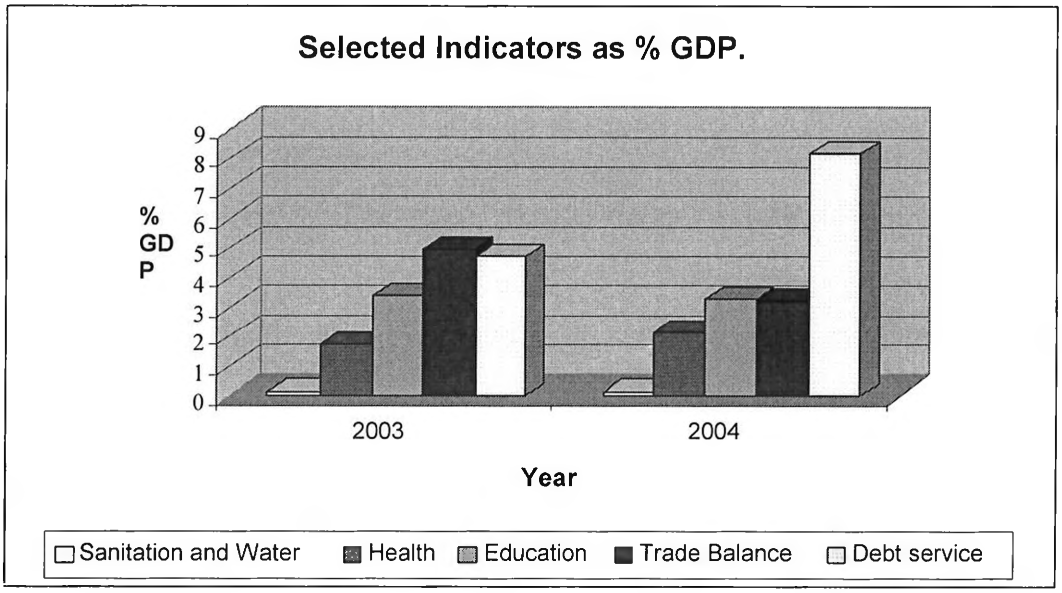

Figure 3: Selected Indicators as % of GDP

NOTE: The absolute figures are used for trade balance for comparisons purposes. It has been in a deficit during the two years. Indicated

The ultimate effect of debt is to limit investment, constrain economic growth, dampen trade and make the country more credit unworthy. It is therefore imperative that the debt write-off under the HIPC completion point be accompanied by increased access to the export markets and improved terms of trade to prevent the country from slipping back into an unsustainable debt situation. Export earnings make the country liquid in terms of hard currency availability, empower the poor with purchasing power and improve the balance of payment position.[32]

Zambia must take advantage of the expanding NTE in the agricultural sector to lobby for better terms of trade. This is especially true of the primary/processed agricultural commodities produced by firms that employ the majority of the poor, in order for trade to be a vehicle for poverty alleviation and debt mitigation. The country has also to strive to export value-added and processed commodities. In his study on behalf of UNCTAD, Anderson (2003) estimates that an increase in Africa's trade share by just 1% could generate £43 billion---five times what Africa receives in aid. The World Bank calculations show elimination of all forms of agricultural protection globally would result in total income gain of nearly US$250 billion of which $150 billon would accrue to LDCs and developing countries by 2015.

9.0: Export Barriers to the Western Countries

[32] Trade is cardinal in solving the liquidity problem associated with debt in LDCs because it is the source of the hard currency. A country that may have sufficient domestic currency may still be illiquid in debt settlement if it has no hard currency. Obtaining hard currency via buying on the market may be more expensive than generating some from trade. Thus a country's debt sustainability is measured as a percentage of exports to debt. If the ratio is above 150%, then the debt is unsustainable implying that the country's export base should exceed its debt burden for its debt to be rated sustainable. Trade and trade rules determine how much a country can earn from exports hence its liquidity.

Although Zambia and other countries are supposed to have free market access to the EU/USA under various arrangements, a number of border in and border out issues like non-tariff barriers as well as the domestic market policies of the export markets like the common agricultural policy in the EU have hampered the flow of exports to these markets. Among constraints other than quotas and subsidies are:

i. **Sanitary and Phytosanitary measures (SPS)** –One fundamental requirement is that imported agricultural products are safe and do not pose risks to human, plant and animal health. To avoid introduction of disease and pests through trade, countries impose regulations to protect human and animal health (sanitary) and plant health (phytosanitary). Generally each country sets its own food safety animal and plant standards. By their very nature SPS may result in restrictions on trade. The EU usually goes beyond what is perceived as necessary for health protection and use SPS measure to shield domestic producers from economic competition.

   Zambian products exported to the EU are subject to stringent inspections at the port of entry. This tends to restrict the volumes of exports and is perceived as a latent non-trade barrier designed to protect the EU producers. Even the cut flowers that previously entered the EU markets without being inspected are now subjected to phytosanitary inspections. The need for SPS inspections poses extra costs and delay in getting the products to the intended markets, adversely affecting the quality.

   Unfortunately the required standards are usually not met once and for all. They tend to be dynamic with time. The changes are usually not communicated to our producers in time and they end up shipping merchandise that is returned at the port of entry.

ii. **Minimum Residual Level:** There are very high standard set on MRL regarding most crops. This considers less/non utilization of certain chemical/pesticides, especially those known to be ozone layer depleting. The EU directive number 2000/42/EC came into force in 2001. It includes 33 active ingredients of pesticides. Sadly, Zambian soils have too many pests which make it inevitable to make use of such chemicals. The zero tolerance on MRL reduces the products that qualify for the EU market, acting as a technical barrier.

iii. **Market Standards**: set by the EU regarding the expectations of each product like how it should grow, size, shape smell and packaging especially on perishable products tend to cause disruptions on the already unstable market, disadvantaging the producers in terms of low profits. The standards are set by the importing countries based on their climatic conditions, thus making it difficult for some products to penetrate those markets.

iv. **Pests Risk Assessment** (PRA): some pests (like leaf mining Lirimyza, tobacco whitefly, caterpillars) are not allowed in the EU. With zero tolerance on the pests, most Zambian floricultural/horticultural exports containing such pests are not permitted for export. The mandatory nature of the PRA implies additional costs on exporters. In addition, Zambia does not have sufficient capacity for pest control at production stage.

v. **Complex tariff structures and import arrangements**: The EU currently uses complex tariffs and import arrangements such as prices and regimes that are not only restrictive abut also not transparent. They are not easy to compare across the Union members, hence acting as barriers to trade. It has been argued that the complexity of the tariff structure is possibly the main constraint to vertical diversification of agricultural products.

vi. **Restrictive rules of origin:** The rules of origin that govern the use of the Cotonou Agreement and indeed the EBA are over onerous. They are less cumulative, making it difficult for potential exporters to source imports from a cheaper source that does not qualify under the EU. The producers are expected to only source the inputs from other GSP eligible countries. These tend to be hurdles to increased exports.

vii. **Child Labour**: As a result of consumer concerns about production methods and their impact on poverty and the environment, the main EU countries are setting up codes of practice that most African exporters are requested to follow. Among the issues is that of child labor. In Zambia most exports like cotton and vegetables are grown by small-scale farmers who rely on family labour. Family labour, of course, incorporates children. There is need for the EU to realize that children doing light safe work off school times supplement family incomes without compromising their future. Thus proper negotiations have to be undertaken on this issue.

viii. **Information Flow:** The flow of information about changes in the export markets pertaining to new policies, quality requirements and certification and export procedures usually does not get to the suppliers in good time. Thus you find them exporting commodities that get held up at the port of entry. This acts as a barrier to exporting.

ix. **The Border in Issues:** These relate to issues that constrain the capacity of the domestic producer to expand their exports. The major constraints in this area are mainly complementary institutions that include the high cost of production, lack of the supply response, lack of credit facilities, poor communication systems and high interest rates that are prohibitive to local investors. Most of the export-oriented production tends to be capital intensive making them be beyond the reach of the poor. Thus border in issues can limit the extent to which trade helps alleviate poverty. Thus deliberate policies have to be designed which encourage pro-poor trade or trade that encourages the poor to participate and benefit from globalisation.

10: Non –Governmental Organizations Involved in Trade Issues

With the growing importance of trade and the new development thinking that links trade to poverty reduction, the civil society groups, world over have become actively involved in trade and trade relate issues. There are a few NGOs in Zambia that are actively involved in trade issues. The prominent ones include:

The Civil Society Trade Network of Zambia (CSTNZ): this organization is involved in trade advocacy and lobbying. It does so by information dissemination, and research on trade issues and capacity building. They have representation on the MCTI's committees that deal with trade related issues. Thus, they have a direct input into Zambia's trade policy and negotiations. CSTNZ is an umbrella body for the civil society organisations like Civil

Society for Poverty Reduction and the Catholic Commission for Justice Peace and Development, JCTR, CUTS-ARC, ODCMT, Zambia Association of Research and Development and the Zambia Consumer Association.

Consumer Unity and Trust Society-Africa Resource Centre (CUTS-ARC): This is an international non-governmental organization that does research on trade issues, which it supplies to the MTCI. So far it coordinates 7 countries in the region and it advocates for decentralization of the management of trade policy and negotiations process to partnership level. On the regional level, CUTS-ARC cooperates with regional bodies like COMESA, SADC and SEATINI in conducting research and provision of timely information for negotiations and trade policy formulation.

Organization Development Community Management Trust (ODCMT): is involved in advocacy and information dissemination. In advocacy, they collect signatures from the farmers and present them to the WTO during Ministerial Conferences. So far they are focusing on cotton issues. Although this group has been active for a while in trade issues, it still lacks the technical capacity to engage on serious trade issues (negotiations, etc.)

On the regional level there are large civil society groups that are involved. Among them are: SEATINI based in Zimbabwe. SEATINI is involved in building capacity on trade issues for the regional bodies, NGOs and governments. They are also involved in research on trade related issues. They are currently working closely with COMESA on issues to do with the EPAs. There is also the Trade Law Centre for Southern Africa (TRALAC) based in South Africa, dealing in trade issues. Its main focus is on capacity building on trade issues. The main area of focus for these civil society groups in trade issues is advocacy and lobbying for appropriate trade policy

On the continental level, there is the African Trade Network that works closely with civil societies on trade issues. The other active organizations are Oxfam, Christian Aid and the Trade Justice Movement.

SWOT Table for NGOs currently involved in Trade

STRENGTHS	They represent the interests of the people Can easily network High levels of technical ability in lobbying and advocacy
WEAKNESS	Poor coordination among them, and lack of strategy Low levels of information flow between them, i.e., between the umbrella (CSTNZ) body and the rest of the civil societies that work alongside it Inadequate expertise on trade issue

	Inadequate financial flows.
OPPORTUNITIES	Support of NGOs/CSOs participation by WTO regional bodies and negotiation partners Conducive environment for NGOs to have an input in government negotiations position Almost all core Acts to affect trade issues are not yet completed, hence can have an input. Availability of international NGOs like CUTS-ARC can help them link up with other key NGOs in trade.
THREATS	Fact that government is the final authority on trade issues

10.1: Conclusion and Recommendations

In conclusion, trade liberalization and membership in the regional and multilateral trading system is a 'double-edged sword.' It offers both challenges and opportunities. It can create winners and losers. Whether Zambia will gain from the global trading system or not will depend on how it positions itself in the trading system and responds to both domestic and foreign challenges. At the moment there is chance for Zambia to influence the global system towards helping to eliminate poverty, debt and underdevelopment by making informed commitments to the protocols it gets into. This can be achieved by an active engagement of all stakeholders in the development process such as the private sector, NGOs and non-state actors that have various levels of expertise on debt, poverty, negotiations and development issues. There is greater need for the government and civil societies to work closely together as stakeholders in the development process. Therefore the following recommendations are made, in three divisions that obviously have very close linkages:

Recommendations for Government

Among the things that an effective and pro-active government should be attending to are the following.

1. Capacity building in trade issues: Although Zambia has qualified negotiators; the capacity currently is inadequate and quite weak. Thus there is need to train and retain more people in issues of trade.
2. There is an urgent need for the government to send qualified trade attaches to foreign missions that are critical to Zambia's negotiations and trade interests like the USA, Brussels and Geneva.
3. There is need for increased and timely flow of information about the current issues that affect international trade between the stakeholders, i.e., the government, the civil society, and the private sector. Furthermore, there is need to enhance coordination among the ministries and CSOs that share the responsibility of formulating trade policies.

4. It is important for either the ministry or the private sector to undertake ex ante impact assessment studies of agreements and protocols such as the EPAs before they are concluded so that necessary precautions are put in place so that the nation can benefit from the agreements.
5. It is cardinal to note that Zambia is a signatory to various (bilateral, regional and multilateral) trade agreements that are overlapping in many areas. There is need for the country to be critical of the agendas of each protocol. For example, most of the agenda that the LDCs rejected at the Cancun Ministerial Conference (under the WTO) are now tabled under the EPAs. The question would be what can Zambia benefit in the EPAs that the EU could not concede to under WTO in such areas as agriculture?
6. There is need for government to finalize the amendments to the investment and EPZ acts and the development of the trade and industrial policy. It is cardinal that these acts are tailored towards growth and poverty reduction.
7. It is also important to encourage full participation of non-state actors in the process of trade policy formulation and negotiations to strengthen the inadequate capacity at the MCTI and ensure that all issues that affect the economic and social sectors such as poverty are considered.
8. There is also greater need for government to institute complementary policies to ease the burden of adjustment for companies and households in order to avoid poverty by allowing them a greater degree of economic vulnerability

Recommendations for the CSOs, including JCTR

Zambia has a very strong civil society with skills in study and advocacy campaigns. The JCTR is a key actor among civil society organisations. These are some of the ways that CSOs should be responding to the trade issues affecting Zambia:

9. Trade has to be fair both domestically and abroad if it has to contribute to durable poverty reduction. It is essential therefore for JCTR and other CSOs to domestically lobby for rewarding trade conditions between the poor farmers and the exporters, especially those under out-grower schemes. In addition, there is need for minimum wage for the workers in the export sector, which is currently dominated by foreign investors, e.g., floriculture/horticulture industry. Are the wages workers are getting matching the gains these foreign investors are making?
10. Considering the fact that Zambia has committed herself to progressive liberalization, the role of tariffs and non-tariff barriers as a means of promoting local industries has diminished. It is important for Zambians to be encouraged to consume the locally produced goods to stimulate local production and reduce imports (which leads to current account deficits and then triggers debt problems). This strategy is well developed in the RSA where NGOs/ private sector promote the consumption of local goods through the slogan dubbed "Proudly South African". This encourages consumers to buy locally produced goods, which in turn encourage domestic production that stimulates employment.
11. There is also a gap in terms of information flow between the MCTI and the producers in terms of the existing opportunities and changes in global trading system. Information can easily be accessed if the system is well organized. JCTR and other CSOs can complement the ministry by filling in this gap by conducting sensitisation

workshops and writing regular briefs about the existing opportunities for the producers.

12. CSOs such as JCTR can play an important role in the area of trade policy formulation and negotiations by involving themselves through lobbying and advocacy. Experience so far has shown that lobbying is a very powerful tool to influence any form of negotiations. Advocacy can help bring on board broader views that traditional negotiations so far have not considered. JCTR represents the voice of the poor community. This is cardinal for all levels of negotiations. Under the EPAs, for instance, the EU has asked for all-inclusive views on the process.

Recommendations Specifically for JCTR:

JCTR has some "comparative advantage" that should utilise in responding to the challenges arising from Zambia's trade situation. Since the JCTR is committed to poverty reduction (indeed, to poverty eradication!) in Zambia, there are at least three ways that it can build on its experience, skills and reputation in dealing with trade:

13. JCTR is an organisation that puts a *values approach* to both its analysis and its advocacy. That is, it is influenced by the values of human dignity, community, solidarity, concern for the poor, gender equity, environmental respect and, overall, integral and sustainable development. A basic question that the JCTR should always ask when looking at trade issues is: *what does this mean for people, especially, what does this mean for the poor?* It is not simply keen *macro-economic* study that is called for but also sharp *macro-ethical* study. It is unfortunate that this pro-people, pro-poor approach has not always been a priority in dealing with the economic challenges Zambia (and other developing countries) face. Had that been so, then the dismal consequences of policies such as the Structural Adjustment Programme (SAP) would not have been so sadly felt! Therefore the JCTR must keep the *values approach* up-front in all it does relating to the understanding, negotiations and decisions affecting trade issues.

14. Currently there is no CSO in Zambia that uniquely blends the issue of trade to the issue of debt. Having vigorously and successfully campaigned for debt relief, JCTR can easily line its argument for debt relief to better terms of trade. This is so because sustainable debt relief cannot be addressed without dealing with causes of debt such as poor market access. Through its debt cancellation campaigning over the past several years, JCTR already has extensive experience in relating with local and international organizations. Moreover, JCTR has room actually to request the MCTI for representation on some of the committees that deal with trade. Another indirect way is to engage the Ministry through the civil society representative, i.e., Civil Society Trade Network of Zambia.

15. The JCTR has very good allies in its struggle for a more just global environment for Zambia's quest for development in the friendly organisations in the North that it has related closely with in recent years. These include development cooperation groups such as Oxfam (UK), Cafod (UK), Misereor (Germany), CCFD (France), Kepa (Finland) and CRS (USA). Other groups are specifically advocacy-oriented in relation to developing countries' issues, such as EURODAD and the Jubilee

campaigns in several countries. The advantages that links with these organisations brings is focused assistance in information-exchange and research, wider publicity about Zambia's case for linking trade, debt and poverty reduction, and effective cooperation in specific advocacy efforts, e.g., at the WTO meetings.

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Annex 1: Key Industries that are involved in Trade in Zambia

Name of Company	Status of ownership	Sector of operation
Amanita Milling	Foreign	Cereal products
Biopest	Zambian	Floriculture/Horticultural
Cheetah Zambia	Foreign	Spices, Culinary etc
Consolidated Farming/Sable	Zambian	Agricultural/ Transport etc
Dunavant	Foreign	Cotton/ textiles
Dunhelm Estates	Foreign	
Filamingo Farms	Zambian	Floricultural/horticultural
Kaposhi Daily Farms	Joint venture (Foreign co+ Indiv)	
Pamodzi Gemstones	Joint	Precious/semi-precious
R.M Gemstones	Joint	Gemstone
Ross Breeders	foreign	Cut flowers etc
Sakiza Spinning	Zambian	Textiles
Stancom tobacco	Local company	Tobacco
Zambia Sugar	Multinational	Sugar/chemical products
Kalimba Farms	Foreign	Leather products
Malar Estates	Zambian	Hides, skins
Malar	Zambian	leather
Sedb tannery	Zambian	Leather
Zamefa	Foreign	Machinery/metals
Tap Building	Foreign	Minerals etc
Bella Industries	Joint venture	Headgears
Dyno Nobel	Joint (Zamb Ind, f.co)	
Scaw Limited	foreign	
SKF Limited	foreign	
Vitafro Limited	foreign	Cosmetics
African Explosives	Foreign	
Apex Minerals	Joint	Minerals
Grizzly Mining Ltd	joint	Jewelry
Karibba Minerals	Foreign	Stones/jewelry
Nasla Industries	foreign	Plastics
Chilanga Ltd	Foreign	Building materials
Amaka Cotton	Zambian	Texitiles
Clark Cotton	foreign	Textiles
Continental Ginnery	Foreign	Textiles, fibres
Copperbelt weaving textiles	Foreign	Textiles
Kabwe Industrial Fabrics	foreign	Yan, textiles etc
Swarp Spinning	Zambian	Textiles
North western	foreign	Textiles, yarn etc
Colgate Palmolive	Multinational	Cosmetics
Gowock Ropes & canvas	foreign	

Annex 2: Zambia's Products of Competitive/comparative Advantage Based on the Priority sectors Identification Study (JITAP, 2005)
SWOT Analysis

PRODUCT	PERFORMANCE	STRENGTHS WEAKNESS AND OPPORTUNITIES AND THREATS
Cotton	Largest crop for smallholders Account for about 20% of total agric exports Main markets EU and RSA	**Strengths**; High quality that is handpicked, not GMO, thriving markets in RSA to AGOA, Increased out growers, duty on inputs zero rated **Weakness**; Use of low germination local seeds, diseases, high labour costs, poor infrastructure. **Opportunities:** SADC trade protocol, AGOA **Threats :** Lack of dedicated government support
Fresh Vegetables/ Floriculture Fresh flowers	Mainly Peas and Asparagus Account for 30% of agricultural exports,	**Strengths:** Good climate, abundant cheap land, good government policies, low labour cost **Weaknesses:** Distance from markets, costly air freight, level of technical knowledge, inadequate domestic demand **Opportunities:** EPZ, New technology, methods of production. **Threats:** Banning use of chemicals without alternative, SPS measures
Paprika	Major markets, Spain, Cyprus, RSA, Zimbabwe	**Strengths:** Zambia enjoys strong comparative advantage Varieties selected are of high value, Less capital inputs than other NTE, suitable for small-scale farmers. **Weaknesses:** provides lower return than other NTEs, High yield requires irrigation and intensive use of crop inputs. Taxes on agriculture inputs **Opportunities:** Well suited for crop rotation with tobacco
Leather Products	Main Markets: USA, Mexico, Korea, Italy, China, Japan	**Strengths:** Plenty arable land for livestock herding, good climate, employment to traditional cattle herders, direct sales to customers. **Weaknesses:** Shortage of quality raw hides and skins, inadequate capacity for value get, Veterinary permits not easy to get lack of investment, Crocodile skins: Long time business, **Opportunities:** are granted duty free access to the USA, Crocodile skins:

Annex 3: Issues Discussed at World Trade Organization Ministerial Conferences

The Ministerial conference is the WTO's highest decision making-body. It meets at least once every two years', as required by the Marrakesh Agreement Establishing the WTO in 1994 the successor of the General Agreement on Tariffs and Trade of 1947.

1. **SINGAPORE , 9 – 13 DECEMBER 1996**

The Singapore meeting was held from 9 – 13 May 1996. The meeting aimed strengthen the WTO as a forum for negotiation, the continuing liberalisation of trade within a rule-based system, and the multilateral review and assessment of trade of trade policies, and in particular to:

- Assess the implementation of commitments under the WTO Agreement and decisions;
- Review the on-going negotiations and work programme;
- Examine developments in world trade; and,
- Address the challenges of an evolving world economy.

The main issues discussed include:

- **Trade and Economic growth**

The rise in global trade facilitated by trade liberalisation within a rule-based system was recognised for creating more and better-paid jobs in many countries. It was also observed that working together offered an opportunity to make the most of the possibilities that the multilateral system provides to promote sustainable growth and development while contributing to a more stable and secure climate in international relations.

- **Integration of Economies; Opportunities and challenges**

The changes that take place in international trade and the increasing integration of economies offered unprecedented opportunities for improved growth, job creation, and development. These developments also posed challenges to the trading system that required to be addressed.

- **Core labour standards**

There was renewed commitment to observe internationally recognized core labour standards.

- **Marginalisation**

There was commitment among members to address the problem of marginalisation for least-development countries and the risk of it for certain developing countries.

- **Role of WTO**

In pursuit of the goal of sustainable growth and developments for the common good, it was envisaged a world where trade flowed freely.

- **Regional Agreements**

Trade relations under WTO were increasingly influenced by in regional trade agreements which have expanded in number and coverage. This was seen as a way to assist member countries integrate into the international trade system. The primacy of the multilateral trading system was reaffirmed and renewed commitment to ensure regional trade agreements were complementary to it and consistent with its rules.

- **Accessions**

There was need to bring the new applicants expeditiously into the WTO system.

- **Dispute Settlement**

Determination to abide by the rules and procedures of the dispute settlement was renewed and the other WTO agreements in the conduct of trade relations and the settlement of disputes.

- **Implementations**

Some members expressed dissatisfaction with certain aspects of implementation and it became clear that there was need for more effort in this area.

- **Notification and Legislation**

Compliance with notification requirements had not been fully satisfactory. Relevant WTO bodies were advised top take appropriate steps to promote full compliance while considering practical proposals for simplifying the notification process. Each was expected to carefully review all existing or proposed legislation, programmes and measures to ensure their full compatibility with WTO obligations.

- **Developing Countries**

In recognition of the provisions for differential and more favourable treatment in WTO Agreements the availability of technical assistance under the agreed guidelines would be improved.

- **Least-Developed Countries**

The problems of the least developed countries remained an important issue and an action plan was designed to improve their overall capacity to respond to the opportunities offered by the trading system.

- **Textiles and Clothing**

There was confirmation of full commitment and faithful implementation of the provisions of the Agreement on textiles and clothing.

- **Trade and Environment**

It was realized that full implementation of the WTO Agreements would make an important contribution to achieving the objectives of sustainable development. The committee's work covered broad and complex issues and the work programme showed that there was need for further work.

- **Services Negotiations**

There was commitment to achieve a successful conclusion to the negotiations on basic telecommunications in February 1997 and to resume financial services negotiations in April

1997 with the aim of achieving significantly improved market access commitments with a broader level of participation in the agreed time frame.

- **ITA and Pharmaceuticals**

The initiative by some members to agree on tariff elimination for trade in information technology products on an MFN basis was welcomed.

- **Work Programme and Built-in Agenda**

A number of provisions in the Agreements calling for future negotiations were agreed on. These include: Agriculture , services, and aspects of TRIPS, or reviews and other work on anti-dumping, customs valuation, dispute settlement understanding, import licensing, pre-shipment inspection rules of origin, sanitary and phyto-sanitary measures, safeguards, subsidies and countervailing measures, technical barriers to trade, textiles and clothing, trade policy mechanism, trade-related aspects of intellectual property rights and trade-related investment measures.

- **Investment and Competition****[33]

In recognition of the existing WTO provisions on matters related to investment and competition policy and the built-in agenda, it was agreed that working groups should be established to examine the relationship between trade and investment, and to study issues raised by members relating to the interaction between trade and competition policy, including anti-competitive practices in order to identify any areas that may merit further consideration in the WTO framework

- **Transparency in Government Procurement****

It was further agreed that working groups should conduct a study on transparency in government procurement practices, taking into account national policies, and, based on this study, to develop elements for inclusion in an appropriate agreement, and directed the Council on Trade in Goods to undertake exploratory and analytical work, drawing on the work of other relevant international organisations.

- **Trade facilitation****

Technical cooperation programme of the secretariat would be available to developing and in particular, least-developed country members to facilitate their participation in this work.

2. GENEVA, 18 – 20 MAY 1998

The Geneva ministerial meeting was the second conference and took place during the fiftieth anniversary of the multilateral trading system. It underlined the importance of the multilateral rule based trading system. It also reaffirmed the commitments and assessments made at Singapore. It further welcomed the conclusion of the negotiations on basic telecommunication and financial services. The conference was deeply concerned at the continued marginalisation of the least-developed countries and certain small economies and recognised the urgent need to address this issue. The conference decided that a process be

[33] **Represent the four new controversial issues(that developed wish to gain a conclusion on while the LDCs do not want discuss them until they have done enough consultations

developed under the direction of General Council to ensure full and faithful implementation of existing agreements and to prepare for the third session of the ministerial conference.

3. SEATLE, 30 NOVEMBER – 3 DECEMBER 1999

The Seattle ministerial was the third conference since the WTO was created on 1 January 1995. The conference launched new negotiations to further liberalise international trade and to review some current trade rules. It also set in motion a work programme to look at other important issues. It was set that the GATS and Agriculture the new negotiations would resume by beginning of 2000. In addition, many WTO members had proposed other issues in the negotiations e.g., Developing countries wanted to examine how the agreements on anti-dumping measures, subsidies and textiles and clothing had been implemented. However, this meeting was disrupted by the anti-globalisation movement and those that felt that the LDCs were being exploited by the dominant powers.

4. DOHA, 9 -14 NOVEMBER 2001

This was the fourth ministerial conference under the WTO held in Doha from 9 – 14 November 2001. It recognized the need for all people to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. It was also realised that the challenges members were facing in a rapidly changing international environment could not be addressed through measures taken in the field of trade alone but would continue working closely with the Bretton Woods Institutions for greater coherence in global economic policy-making. This conference was primarily supposed to make resolutions that would advance the development agenda of the LDCs. Some of the issues discussed at this conference include:

- **Implementation-Related Issues and Concerns**

It was agreed that negotiations on outstanding implementation issues shall be an integral part of the work programme established. Any specific negotiating mandate provided the relevant implementation issues should be addressed under that mandate. The other outstanding implementation issues should be addressed be addressed as a matter of priority by relevant WTO bodies.

- **Market Access for non-Agricultural Products**

The conference agreed to negotiations that would aim at: reducing or as appropriate eliminating tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers in particular on products of export interest to developing countries. The modalities to be agreed would include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations.

- **Small Economies**

A work programme under the auspices of the General Council was agreed upon to examine issues relating to trade of small economies. The objective of this work was to frame responses to trade related issues identified for fuller integration of small, vulnerable economies in to the multilateral trading system. The general Council would review the work the work programme and make recommendations for action to the Fifth session of the Ministerial Conference.

- **Trade, Debt and Finance**

The conference agreed that a working group should examine the relationship among trade, debt and finance. The group would make any possible recommendations on steps that might be within the mandate and competence of the WTO to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and least developed countries, and to strengthen the coherence of international trade and financial and monetary instability.

- The other issues that the conference discussed include; Services, Trade- Related Aspects of Intellectual Property Right, Relationship between Trade and Investment, Interaction between trade and competition policy, transparency in Government procurement, Trade Facilitation, WTO rules, Dispute Settlement Understanding. Trade and Environment, Electronic Commerce, Trade and Transfer of technology, and technical Cooperation and Capacity Building,

Annex 5: WTO rules

1. Multilateral Agreement on trade in Goods

This agreement is essentially based on the following four rules

- Protection to domestic industry through tariffs: although progressive liberalization is the ultimate goal, this rule recognizes that member countries may need to protect domestic production against foreign competition via tariffs
- Binding of tariffs: Members are requested to reduce their tariff levels. Tariff levels on each product have to be presented in a formal document. Reduced tariffs are bound against further upward revisions.
- Most favoured-nation treatment (MFN); tariffs and any other regulations on imports and exports should be applied to all WTO member countries without discrimination. FTAs, GSPs or Regional trade arrangements are exempted from this requirement.
- National treatment rule: all goods once in the national boundary must be treated equally regardless of their country of origin.

2. General Agreement on Trade in Services (GATS)

This arises from the realization that services comprise a substantial component of international trade. Examples of services, financial services, tourism, construction etc. FDI plays a critical role in this aspect of trade.

3. Agreement on Trade-Related Aspect of Intellectual Property Rights (TRIPS)

Supports the intellectual property rights as developed by the world intellectual property rights organization

2005

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