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Zambia Trade Brief

Trade Policy

Zambia undertook a trade reform program in the 1990s, reducing import duties, eliminating import and export license requirements, abolishing export bans, and introducing export incentives. According to its MFN Tariff Trade Restrictive Index (TTRI)[1] of 8.9 percent, Zambia is more open to trade than an average Sub-Saharan Africa (SSA) country (11.3 percent) or low-income country (11.6 percent). Based on the TTRI, it ranks of 88th out of 125 countries (where 1st is least restrictive). The agricultural sector is given a higher level of tariff protection (15.9 percent) compared to the non-agricultural sector (8.6 percent). Zambia's ad valorem tariffs comprise three non-zero bands (5, 15, and 25 percent) with the fishing industry and light manufacturing industries such as wood products, manufactured foods, beverages, tobacco, textiles, and leather facing the highest tariff rates. Zambia's average MFN applied tariff has been mostly steady over the past decade and was 13.8 percent in 2008. The maximum MFN applied tariff has increased in recent years to 72.8 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is 90.6 percent. Regarding its commitment to liberalizing services trade, Zambia ranks 82nd (out of 148) on the GATS Commitments Index.

Faced with rising food prices, Zambia banned maize exports in an attempt to ensure domestic food safety. The 2008 budget introduced export taxes of 15 percent on copper concentrates and cotton seed to promote value addition of these products.[2] Moreover, in an effort to relieve its copper mining industry in a time of high oil prices, the government decreased import tariffs on various fuels, including diesel, petrol, and kerosene, in June 2008. However, the government recently increased its import duty on fuel from 5 percent to 25 percent to prevent two domestic oil firms from collapsing.[3]

External Environment

Zambia's exports face a favorable trading environment, especially when compared to the average SSA or low-income country. Zambia's Market Access TTRI[4] (including preferences) is 1.4 percent, below the SSA country group average of 3.9 percent and the low-income country group average of 5.6 percent. The weighted average rest of the world tariff (including preferences) faced by Zambia's exports is 3.3 percent, with the rates for agricultural goods and non-agricultural goods at 10.9 percent and 2.2 percent, respectively. Over the course of 2008, the real effective exchange rate of the Zambian kwacha depreciated by 5.4 percent, making exports more competitive.

As negotiations between the Eastern and Southern Africa (ESA) group and the EU towards a comprehensive Economic Partnership Agreement (EPA) could not be completed prior to the December 2007 deadline, Zambia, with five other members of the ESA group, initialed an "interim" agreement (but with individual market access schedules) with the EU in December 2007 to retain its preferences to the EU market under the Cotonou Agreement. Its market access offer was concluded on September 20, 2008. Zambia postponed signing the interim EPA, which was signed by ESA members Mauritius, the Seychelles, Zimbabwe, and Madagascar in August 2009. The country continues to negotiate a comprehensive EPA with the EU as part of the ESA group. Zambia is also a member of the 15-country Southern African Development Community (SADC), whose Trade Protocol, which was signed in 1996 and came into force in 2000, culminated in the launch of a free trade area in August 2008. The country also belongs to the Common Market for Eastern and Southern Africa (COMESA) which established a customs union in June 2009 and plans to fully implement it by 2012.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Behind the Border Constraints

Zambia ranked 90th in the Ease of Doing Business index in 2009, which compares the business environment of 183 countries. The Logistics Performance Index (LPI), a measure of the extent of trade facilitation, rates Zambia at 2.37 on a scale of 1 to 5, compared to 2.35 for the SSA region and 2.29 for countries in the low-income group. It ranks 100th (out of 150) in the world and 15th (out of 39) in the SSA region (with South Africa leading the regional group). Among the LPI subcategories, its best performance is in lowering domestic logistics costs while its weakest performance is in the quality of transport and IT infrastructure for logistics.

Trade Outcomes

Real trade growth (in constant 2000 U.S. dollars) was 18 percent in 2008, marginally lower than the growth rate of 18.6 percent in 2007, but is expected to fall further to 3.1 percent in 2009. Import growth was 15.3 percent in 2008 compared to 16.2 percent in 2007, and was outpaced by export growth of 20.7 percent which was slightly below the growth rate of 21.2 percent in 2007.

In nominal terms, trade grew at an estimated 24 percent in 2008, just below the growth rate of 27.3 percent in 2007, driven mainly by estimated import growth of 38.5 percent, compared to 40.4 percent in 2007. Exports grew at an estimated rate of 10.2 percent in 2008, down from 17.2 percent in 2007. Zambia's trade flow is very sensitive to the volatility of commodity prices, as the bulk of its export revenue is generated through copper exports. Thus, while the country benefited from high mineral prices in the first half of 2008, its export revenue contracted in the second half as prices of copper fell by about two-thirds.[5] Goods exports ended up registering an estimated growth rate of 10.4 percent, lower than the growth rate of 16.9 percent in 2007. Provisional data from national statistics[6] show that goods exports had already fallen by 44 percent in nominal U.S. dollar terms in the first half of 2009 compared to the same period in 2008. However, recovering copper prices have had a positive impact on export revenues. Services exports grew by 5.5 percent in 2008, compared to 22.1 percent in 2007, and growth is expected to continue to slow in 2009. Foreign direct investment as a share of GDP was 8.6 percent in 2007.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. WTO, 2009
3. Global Trade Alert, 2009.
4. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
5. IMF, 2009, p. 4.
6. Central Statistical Office—Zambia 2009, p. 6; Central Statistical Office—Zambia 2008, p. 6.

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