

**ZAMBIA**  
**DIAGNOSTIC TRADE INTEGRATION STUDY**  
**(Concept paper)**

**Objective and Approach**

1. Once a middle income country, Zambia has lived through three decades of declining per capita income and increasing poverty. From mid 1970s to mid 1990s, real per capita income declined by almost two percent a year, which is closely correlated to the fall of international price of copper that dominates the Zambian economy. In the face of falling copper prices and export revenues, Zambia failed to create the environment within which the private sector can be encouraged to diversify by pursuing profitable opportunities both domestically and in export markets.

2. With copper accounting for more than 70 per cent of export earnings, diversification of exports has always been a key objective in Zambia. In early 1990s, Zambia introduced major structural reforms to diversify the economy and to arrest the chronic economic decline. This was successful in realizing an increase in real per capita income from the 1990s and an increase in non traditional exports even though the copper sector experienced a downturn. This turnaround in growth performance can be explained partly by the export diversification achieved since 1995. To maintain the growth momentum and improvement in living standards export diversification needs to accelerate.

3. The main objective of the Diagnostic Trade Integration Study (DTIS)<sup>1</sup> is to understand the trade policies that will support increased economic growth, to explore the options for improving the policy environment in order to accelerate the diversification of exports, and to propose a list of policy measures and technical assistance projects that could be implemented under the Integrated Framework (IF) Program.

4. Zambia is fortunate in having a wealth of recent reports on macroeconomic policy and performance, trade policies, competitiveness, and surveys on obstacles to investment and administrative barriers to business, as well as the Poverty Reduction Strategy Paper (PRSP) and the Transitional National Development Plan (TNDP) prepared by the Government<sup>2</sup>, and a recent Trade Policy Review prepared by the WTO. The DTIS will use all these existing studies, be based on the Country Assistance Strategy (CAS) that was approved recently by the World Bank Board, and will focus on particular areas where more information and analysis is required. In particular, the DTIS will:

- Evaluate trade performance since 1991 with particular emphasis on identifying the key determinants of expansion, composition and the direction of exports. The reforms

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<sup>1</sup> Appendix 1 summarizes the objectives of the Integrated Framework initiative and describes the role of the DTIS in prioritizing needs and mobilizing technical assistance.

<sup>2</sup> Refer to the list of References.

introduced since 1991 have encouraged product diversification within the agricultural sector and resulted in an expansion of non-traditional exports;

- Review the trade regime including the tariff structure, non tariff measures, export incentives and administrative procedures, identify the main weaknesses, showing the extent of the anti-export bias and propose an action plan for encouraging more exports. The existing trade regime continues to exhibit significant anti-export bias resulting in a disincentive to produce for export;
- Review Zambia's regional trade arrangements, identify the inconsistencies and weaknesses in their design and put forward a position for maximizing their benefits and minimizing the risks of trade and investment diversion. Multiple trade agreements with differing preferences and administrative requirements can impose significant implementation costs relative to their benefits;
- Identify needs to strengthen capacity to formulate and implement trade policies and negotiate trade agreements, and propose technical assistance to improve institutional capacity and policy coordination within government and between government and the private sector.
- Examine the complementary policies to trade reform including macroeconomic and exchange rate management, behind the border policies, and the role of the major trading partners with specific reference to the position of South Africa. Establishing a stable macroeconomic environment is essential for the development of trade related activities. Promoting non-traditional exports requires supportive domestic regulatory policies that encourage the provision of competitive and reliable support services and infrastructure;
- Update and identify specific micro-economic constraints to expansion in selected sub-sectors, including gemstones, textiles and clothing, and cash crops. Highlighting the specific constraints to expansion will provide the basis for specific interventions in the Action Matrix.

5. The DTIS will be fully anchored in the CAS which focuses on three strategic priorities: (a) Sustainable Economic Growth within a diversified and export-oriented economy, (b) Improved lives and protection of the vulnerable, and (c) an efficiently and effectively managed public sector.

6. The DTIS will be prepared by a team of international and local consultants, and Bank staff in close collaboration with government, donors and other stakeholders. All the existing donor trade programs will be reviewed (including the recently started JITAP) and the technical assistance proposals in the DTIS will be coordinated with the ongoing programs.

### **Trade as an engine of Growth**

7. Zambia has a relatively small domestic market, with more than 70 per cent of the population subsisting on less than \$1 per day. Future growth will need to come from expanding production for export. Production for export can potentially deliver high growth and help reduce poverty. The importance of export diversification for delivering increased economic growth requires the mainstreaming of trade policies into overall government development policies.

8. Zambia's commitment to trade policy reform in the 1990's in conjunction with other structural reforms encouraged an increase in Non Traditional Exports. This positive response is

similar to the experience of many countries that increasing income is linked to a more open trade policy. Increased trade follows from a more open trade policy and based on findings from elsewhere does not result in a systematic change in household income distribution, which implies that increased trade generally goes along with improvements in the well-being of the poor.

## Trade Policies

9. Since 1992, the government has implemented a comprehensive trade reform program 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, and the introduction of a system of export incentives (duty drawback, manufacturing under bond). 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.

10. It is important to recognize that the height of tariffs, average tariff rates and an absence of quantitative restrictions reveal only part of the overall incentive package facing the private investor. The investor is concerned with the actual price they will have to pay for material inputs and services. The price levied in-country will depend on the actual tariff levied on a specific product and not on an average tariff. The cost of production will be influenced by, amongst others, the cost of finance, the price of labor and the productivity of labor, the cost of transport, the cost in terms of time and effort in obtaining permits and other mandatory approvals, the availability of reliable and cost effective telecommunications, including the availability of trade finance. All of these play a role in determining the competitiveness of an investor and will be addressed in the DTIS.

11. With a simple average tariff of 13.4 per cent and a simple four band tariff structure, Zambia has a modest tariff dispensation. The 2001/2002 tariff has 6,041 tariff lines at the HS eight digit level. The ad valorem tariff comprises four bands: 0, 5, 15, and 25 per cent. The structure of tariffs is shown in Table 1. The most common rates of 15 per cent applied to one third of all tariff lines. The maximum rate of 25 per cent applies to final goods and agriculture-related tariffs. In addition to the tariff, Zambia also collects a 17.5 per cent VAT on goods and services and excise duties on selected products at prices ranging from 5 -125 per cent. VAT and excise duties are levied on all goods-domestic and imported.

**Table 1: Structure of MFN Tariffs**

| Tariff Rates | Tariff Lines (%) | Type of Products                                            |
|--------------|------------------|-------------------------------------------------------------|
| 0            | 20.9             | Agricultural machinery, pharmaceuticals, Some raw materials |
| 5            | 15.1             | Mining and quarrying, machinery, some raw materials         |
| 15           | 33.0             | Intermediate goods                                          |
| 25           | 31.0             | Final goods including agricultural products                 |

12. Zambia provides reciprocal duty free preferences to COMESA members for all goods, and is implementing a tariff phase down (2000-2008) under the SADC Trade Protocol.

13. Zambia provides a range of incentives to assist exporters and investment in export oriented industries. These include: duty drawback in inputs used for export production, based on firm level input output coefficients. A bonded warehouse facility where goods manufactured under bond are exempted from customs duties and taxes when they are exported. Exporters of non traditional products are subject to a concessionary income tax of 15 per cent (the standard rate is 35 per cent). Exporters are zero-rated for VAT refund purposes, however, imported machinery and spare parts incur VAT. The Export Processing Zone (EPZ) Authority was established in September 2002 but is not yet fully operational. Under the EPZ Act, enterprises exporting a minimum of 80 per cent of their production will qualify for EPZ status and benefit from duty and tax exemption for 10 years.

14. The array of incentives available to exporters in conjunction with a cascading tariff structure will result in anti-export bias. The producers supplying the domestic market will be unable to compete in international markets and the exporters will have few incentives to source intermediate inputs domestically. Anti export bias compares the average Effective Rate of Protection (ERP) for import-competing producers with the average rate of protection that applies to exports in a given market (i.e. the SADC/COMESA or rest of the world). In assessing the incentives it will be necessary to try and calculate the ERP facing producers in producing for different markets. The information for this will be obtained from the recent SADC and COMESA firm level surveys.

15. Zambia participates in both multilateral and regional trading agreements. It is a member of the WTO, Common Market for Eastern and Southern Africa (COMESA), and Southern African Development Community (SADC); and a signatory to the Cotonou Agreement. It is also negotiating bilateral agreements with Zimbabwe, Mozambique and the DRC. Zambia 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. The removal of tariffs under the COMESA Free Trade Area and the SADC Trade Protocol without reducing or harmonizing Member States' external tariffs will create substantial incentive to produce for the regional market. Given the level of domestic protection afforded to manufacturing in SADC and many COMESA countries, virtually all of this additional intra-regional trade will reduce Members real incomes. The DTIS will assess the prospects for trade creation and trade diversion from regional integration through assessing the likely changes in the rates of effective protection under the regional integration programs.

16. A key weakness in trade policies in Zambia is the lack of attention on export promotion. The extensive trade reforms in the 1990's focused primarily on liberalizing imports through reducing tariffs and abolishing quantitative restrictions. Less attention was accorded to specific incentives for promoting exports. The previous two decades of policies promoting import substitution left the private sector poorly prepared to enter export markets. To compete in international markets firms had to reengineer to supply products in demand at competitive prices in new and unfamiliar markets. There has been inadequate attention to providing export promotion support to potential exporters. DTIS will focus largely on improvement in export services rather than further import liberalization.

## Trade Performance

17. Over the period 1990-2001 Zambia's trade performance was mixed. While the non-traditional exports (NTE) reacted positively to policy reforms, mining exports declined significantly. The increase in non-traditional exports (NTE) of \$210 million was more than offset by the \$670 million decline in mining exports (Table 2). The substantial decline in mining exports can be explained by the fall in both the price and the quantity of copper exported. In the same period total merchandise imports increased from \$840 million to \$930 million, indicating a move to a substantial trade deficit. The poor overall export performance has resulted in the share of exports in GDP declining from 34 per cent in 1990-92 to 28 per cent in 1999-2001. During the same period Zambia's share in world exports declined from 0.031 per cent to 0.015 per cent

**Table 2: Indicators of Trade Performance**

|                                           | <b>1990-92</b> | <b>1999-2001</b> |
|-------------------------------------------|----------------|------------------|
| <b>Volume of Trade (US \$, million)</b>   |                |                  |
| Imports                                   | 843            | 929              |
| Exports                                   | 1330           | 868              |
|                                           |                |                  |
| Traditional exports                       | 1296           | 626              |
| Non-traditional exports                   | 134            | 242              |
|                                           |                |                  |
| <b>Composition of exports (%)</b>         |                |                  |
| Traditional exports                       | 89.9           | 72.1             |
| Non-traditional exports                   | 10.1           | 27.9             |
|                                           |                |                  |
| <b>Herfindahl concentration index</b>     | 0.70           | 0.56             |
|                                           |                |                  |
| <b>Percentage of GDP</b>                  |                |                  |
| Imports                                   | 40.7           | 26.9             |
| Exports                                   | 34.0           | 28.0             |
|                                           |                |                  |
| <b>Shares in world trade</b>              |                |                  |
| Imports                                   | 0.031          | 0.015            |
| Exports                                   | 0.031          | 0.015            |
| Percentage of imports financed by exports | 118            | 95               |
|                                           |                |                  |
| <b>Direction of exports (%)</b>           |                |                  |
| COMESA                                    | 3.8            | 15.4             |
| SADC                                      | 3.5            | 18.0             |
| EU                                        | 27.7           | 24.3             |
| USA                                       | 3.6            | 3.2              |
|                                           |                |                  |
| <b>Original of imports (%)</b>            |                |                  |
| COMESA                                    | 8.1            | 7.3              |
| SADC                                      | 32.6           | 69.7             |
| EU                                        | 38.7           | 12.7             |
| USA                                       | 6.5            | 2.2              |

18. The past decade has witnessed profound changes in the direction of trade. The share of principal export market (the EU) fell from 27.7 per cent in 1990-92 to 34.3 per cent in 1999-01,

while the share of SADC, primarily South Africa, has increased from 3.5 per cent to 18.0 per cent. The sourcing of imports have seen even more profound changes as imports from the EU have declined from 38.7 percent to 12.7 percent while imports from SADC Africa increased from 32.6 per cent to 69.4 per cent, in the same period. The DTIS will examine the causes and consequences of this substantial shift from South-North trade to South-South trade.

19. Table 3 shows that export diversification increased, albeit from a very low base in the mid 1990's. NTE increased from \$102 million in 1990 to \$315 million in 1997 before slipping back to \$256 million in 2000. NTE recovered in 2001 to reach \$302 million and this continued through 2002. NTE increased from approximately 10 per cent in the early 1990's to 28 per cent in 2000, while part of this increase can be explained by the decline in copper, there have still be in increase in the rate of growth of NTE. Substantial increases have been achieved in primary agricultural commodities, floricultural products, horticultural products, textiles and processed food. Agro-based NTE increased from \$100 million in the early 1990's to \$281 million in 2001. Floriculture and horticulture accounted for \$50 million and employed about 15,000. The introduction of an export credit scheme financed by the EU and World Bank facilitated foreign investment to the floriculture and horticulture sectors.

**Table 3: Share of Selected Non Traditional Exports in Total Exports (per cent)**

|                        | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Primary Agr. Products  | 1.2  | 2.1  | 1.8  | 2.5  | 0.9  | 2.0  | 4.5  | 8.1  | 7.1  | 8.2  | 5.0  |
| Textiles               | 0.7  | 0.9  | 1.2  | 1.1  | 1.7  | 3.0  | 4.1  | 4.5  | 5.2  | 4.7  | 4.8  |
| Processed Food         | 0.5  | 0.4  | 1.3  | 1.5  | 2.1  | 2.2  | 3.4  | 2.8  | 5.8  | 4.3  | 4.8  |
| Floricultural Products | 0.1  | 0.2  | 0.3  | 0.6  | 0.9  | 1.5  | 0.5  | 0.7  | 4.0  | 5.6  | 4.5  |
| Horticultural Products | 0.4  | 0.5  | 0.3  | 0.2  | 0.2  | 0.2  | 0.3  | 0.5  | 2.3  | 3.1  | 3.7  |

### Areas of Focus

20. The DTIS will focus on areas outlined below where there is insufficient information to inform policy. Closing the existing knowledge gaps in these areas will assist the Government of Zambia to implement the appropriate policy and regulatory reforms:

21. **The high rate of growth of non-traditional exports after 1995.** The ability of suppliers to expand the production of NTE's after the extensive trade reforms in the 1990's followed two decades of import substitution. What were the main factors contributing to the increased production for export? The DTIS will document the role of Foreign Direct Investment (DFI) in the expansion of NTE's, identify the current constraints to expanding production, including the availability of export credit, sourcing cost effective inputs, the availability of services, and labor productivity. Under the Investment Act of 1991, capital goods used for the production of items destined for export were imported duty free. This policy had a positive impact on the expansion of NTE in the period 1992-95. In 1996 in a search for additional revenue sources the government imposed an import duty of 5-15 per cent on all imported machinery and equipment.

22. **Anti-export bias:** A cascading tariff structure which provides higher levels of protection for final products relative to intermediate products or raw materials will create substantial incentives for import substituting producers to supply the domestic market relative to producing

for the export market. In the export market the producer will have to sell at the international price (i.e. the price in the absence of tariffs) whereas in the domestic market they will be able to price up to the tariff inclusive price. This disparity between the profitability of selling in the domestic market relative to the world market measures the extent of the anti-export bias. Based on recent firm level survey work undertaken by COMESA Secretariat the DTIS will estimate the existing level of anti-export bias and propose policies to eliminate anti-export bias.

23. **Export incentive system:** The anti-export bias is not compensated for by the current range of export incentives. The DTIS will examine the operation of the DDS. To what extent is the weakness of the DDS a result of administrative issues? The delay in refunding duties which amounts to a tax on exporters may result from onerous administrative procedures or simply be a consequence of a shortage of skilled and experienced staff to administer the scheme.

24. **EPZ:** In economies with significant anti-export bias and supply side bottlenecks which result in high priced domestic services there have been attempts to create special enclaves or zones where firms producing for export are exempt from customs duties and much of the 'red tape' that is required. The creation of competitive enclaves can stimulate additional investment and employment and assist in building support for more economy wide reform. The DTIS will assess the potential for promoting export processing activities based on the enterprise model relative to the geographically defined model.

25. **Maximizing the benefits from regional integration.** Zambia has substantial market access to its major regional trading partners, through participation in the COMESA Free Trade Area and the SADC Trade Protocol. COMESA is committed to moving towards a customs union by November 2004, consisting of four tariff bands: zero, 5 per cent, 15 per cent and 30 per cent on capital goods, intermediate goods, raw materials and final goods respectively. The difficulties encountered to date indicate that implementation may be delayed. SADC is implementing a Free Trade Area through 2000-2008 and in terms of the Regional Indicative Strategic Development Plan has agreed to towards establishing a customs union from 2010. The benefits to Zambia from increased market access to the non COMESA SADC countries, mainly SACU, have been severely constrained by the complex and onerous rules of origin. The extent of these constraints will be addressed. Unless both SADC and COMESA share identical common external tariffs, it will not be possible for Zambia to belong to both two customs unions. It will be necessary for Zambia to decide how it should participate in the regional groupings? What are the implications for Zambia of the COMESA customs union relative to a SADC customs union? What will be the optimal strategy for Zambia? Which program of regional integration will minimize trade and investment diversion? The risks of trade diversion (referred to in paragraph 15) will also be assessed.

26. **Zambia and the European Union.** Zambia is a signatory to the Cotonou Agreement between the EU and 77 countries in Africa, the Caribbean, and the Pacific (ACP) which was signed in June 2000 when the Lome Convention IV expired. The new Agreement establishes the framework for a new relationship to be known as Economic Partnership Agreements (EPA) with regional groupings of ACP countries. Zambia has elected to participate in the Eastern and Southern African grouping which does not include eight members of SADC including all the SACU countries. What is the optimal regional configuration for Zambia and how should it negotiate with the EU? What are the expected benefits from participating in a reciprocal free

trade agreement with the EU? What is the capacity to negotiate with the EU on a comprehensive free trade agreement covering a wide range of technical issues?

27. **Why has Zambia not benefited more fully from AGOA?** The Africa Growth and Opportunities Act entered into effect in May 2000. The AGOA enabled eligible African countries to export more than 6,400 items to the US duty free, complete to approximately 4,600 under the Generalized System of Preference (GSP). Most significantly AGOA contained special apparel provisions which allowed duty and quota free access (subject to a maximum of 3 per cent of total US imports, increasing to 8 per cent, which is not binding) for apparel made from third party cloth.

28. To qualify countries must be moving towards market based economies, developing political pluralism and maintaining the rule of law, eliminating discriminatory barriers to US trade and investment, protecting intellectual property, combating corruption, protecting human and workers rights, and outlawing certain practices of child labor. Zambia was declared eligible in October 2000, and in December 2001 qualified for the export of apparel. To date, it has made only limited use of the AGOA provisions for increasing exports to the US. What are the major constraints in expanding exports to the US?

29. **Export Credit:** With real interest rates exceeding 25 per cent and no credit lines specifically targeted at exporters, except for two donor funded schemes for pre-shipment finance, the domestic export sector is constrained. Large firms that have access to foreign capital are able to finance their exports using much lower cost offshore funds. The DTIS will seek to identify and assess the constraints preventing the private banking sector from providing competitive export finance facilities?

30. **Trade capacity and policy coordination:** The dearth of analytical capacity both within government and in independent think tanks or policy research units deprives government officials and senior policy makers of sound evidence based analysis with which they can justify policy changes. This absence of evidence based work weakens the arguments for further trade reform and reduces the scope for building a broad coalition for change. Influential firms or interests that may be adversely affected by proposed policy changes will lobby government and will draw on their own analysis. Government which represents the community as a whole must be able to show how proposed changes will on balance bring substantial benefits to the majority of Zambians. The DTIS will through consultations with government and civil society and donors assess the existing trade capacity and identify the specific areas where trade capacity requires strengthening. It will propose technical assistance projects to strengthen institutional capacity within and outside government to formulate and implement trade policies and negotiate trade agreements in close collaboration with the private sector.

31. An effective trade policy requires effective coordination between many government ministries and departments. Currently there would appear to be inadequate coordination with ministries making policy changes that impact on trade policy without effective consultation. The DTIS will address the issue of effective intra-government coordination on trade policy.

32. **Standards and the regulatory framework:** The ability of Zambian producers to meet standards in foreign markets is necessary. The DTIS will examine the link between standards,

trade and export competitiveness for Zambia through focusing on a small number of traded products. Zambia is not fully implemented the WTO TBT Agreement. What are the causes of the weaknesses in the Zambian standards infrastructure? Is it a consequence of insufficient resources both financial and human? Or is the existing regulatory structure inappropriate for addressing a more open economy? What is the role of the private sector in ensuring compliance with technical standards? How can Zambia create an environment where essential safety and public health standards are met in a cost effective manner?

33. **Customs administration:** An effective customs administration is essential for sustaining and developing a competitive export sector. The recent FIAS report on Administrative Barriers to Investment (2003) made several recommendations for reducing the transactions costs of cross border trade. The problems identified included the implementation of the risk based approach to customs inspection, and the requirement to obtain much of the documentation in Lusaka. The DTIS will examine the structure and staffing of the ZRA and make recommendations for addressing these constraints.

34. **Sectors with export potential-identifying the incentives and obstacles to expansion:** The DTIS will select three non traditional sectors as case studies to identify the incentives and constraints to expansion into export markets. The specific sectors will be agreed with the Government of Zambia, however, they may include: horticulture, textiles and clothing, gemstones, and tourism. Indicative questions include: access to land; the operation of the labor market, the provision of essential services, transportation costs, finance facilities, contract enforcement, and compliance costs.

35. **Transport sector (transport and trade facilitation audit).** As a landlocked country Zambia needs to ensure cost effective and efficient transport services are available to importers and exporters. The World Bank will undertake a detailed transport and trade facilitation audit. The findings from this audit will be incorporated into the DTIS. The audit aims at establishing a diagnostic, as comprehensive as possible, on the cost and effectiveness of transport services and administrative procedures related to international trade<sup>3</sup>.

36. **Trade and poverty.** Reducing the high level of poverty underpins Zambia's development objectives. Understanding the links between trade policies and poverty reduction is essential for designing pro-poor interventions. Most of the poor live in the rural areas and earn their income from agriculture. Policies that increase agricultural growth promise to have a direct impact on poverty reduction. The move away from maize production to more robust crops appears to be having a positive impact on rural livelihoods. The DTIS will identify the major

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<sup>3</sup> The focus of the audit will include:

- Road, rail and air transport costs associated with the movement of products (inputs and outputs); benchmarking of unit transport costs and the identification of policy, institutional, and market structure factors that unfavorably raise transport costs for Zambian producers/exporters/importers; and specific recommendations for short, medium- and long-term actions to address these cost raising distortions.
- Procedural and documentary requirements (for customs, standards, transit, transport etc.) needed to move goods through borders and benchmarking of these requirements.
- Trade finance and sources of commercial risk
- Information exchange and coordination between logistic service providers and government agencies
- Quality and range of logistic services and infrastructures available to Zambian exporters and importers.

constraints including inadequate commercial channels, inadequate infrastructure, preventing many farmers from marketing their production. Does the absence of infrastructure in rural areas- access and feeder roads, access to market information represent a binding constraint on rapidly increasing production levels? The DTIS will identify the main transmission mechanisms between trade policy, economic growth and the poor.

37. **Ongoing donor programs:** The DTIS will review all the existing donor programs supporting the strengthening of trade capacity and improved competitiveness. The Integrated Framework can act as a catalyst for channeling technical assistance on trade capacity building and trade related technical assistance. The DTIS will prepare an Action Matrix - this set of actionable and prioritized policy recommendations and priority technical assistance needs to overcome the identified constraints will be coordinated with the ongoing programs.

### **Tentative Outline and Staffing**

38. Dr. Robert Kirk (consultant) will lead the DTIS team which consists of local and international consultants and Bank staff. The overall Zambia IF program is managed by Fahrettin Yagci.

39. The Peer reviewers will be Michael Finger (Consultant) and Steven Jaffe (Trade Department).

40. Based on the assessment of key issues outlined above, the proposed outline of the DTIS is shown below:

|           |                                                                                                                                                                                                                                                                                             |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|           | Executive Summary and Action Matrix (Kirk)                                                                                                                                                                                                                                                  |
| Chapter 1 | Economic Background (Kirk)<br>Recent Economic Performance<br>Competitiveness<br>Poverty in Zambia (magnitude/distribution, trends)<br>HIV/AIDS Pandemic                                                                                                                                     |
| Chapter 2 | Trade Performance (Takako Ikezuki)<br>Growth<br>Destination<br>Structural Change                                                                                                                                                                                                            |
| Chapter 3 | Trade Policies (Schuler)<br>Measures directly affecting imports (structure of import duties, trade taxation and revenue, duty exemptions, customs valuation, contingent protection, non-tariff barriers)<br>Measures directly affecting exports (export incentives, export processing zone) |
| Chapter 4 | Foreign Trade Regimes: Market Access (Kirk)<br>WTO<br>Regional Trade Agreements (COMESA, SADC)<br>EU<br>AGOA                                                                                                                                                                                |

- Chapter 5      Competitiveness and ‘Behind the Border’ Policies (Consultants-Financial Sector/Regulatory Framework)  
                  Macroeconomic Policies (foreign exchange instability, interest rate policy, level of taxation) (Kirk/Consultant)  
                  Investment Climate (incentives) (Kirk)  
                  Trade support institutions (customs administration, government services, export credit and export promotion) (Jacobs)  
                  Regulatory Framework (labor regulations, access to land, work permit and licensing issues, standards infrastructure/SPS and TBT, telecommunications) (Jacobs / Sam Mwambazi)  
                  Transport and Trade Facilitation (Arvis & Ersel)
- Chapter 6      Trade Capacity and Policy Coordination (English)
- Chapter 7      Case Studies: Sectors with Export Potential (Consultants)  
                  Agriculture (cash crops and livestock– case studies)  
                  Gemstones  
                  Textiles and Apparel  
                  Tourism
- Chapter 8      Trade and Poverty (Ajwad and Porto)  
                  Openness and Poverty  
                  Distribution of poverty (rural and urban)  
                  Linkages between trade and poverty, estimating the effects of growth and trade on poverty
- Chapter 9      Ongoing and Planned Donor Programs (Kirk)

## **Timetable**

41.      The Initial Mission to Zambia to meet with the Government and the Cooperating partners is scheduled for early May 2004. The main DTIS mission is expected to take place during late May/early June 2004. The draft DTIS will be submitted by October/November 2004 with the National Workshop scheduled for January/February 2005. The final DTIS will be submitted by March 2005.

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### **Appendix 1: The Integrated Framework**

The Integrated Framework (IF) is an international initiative through which the IMF, ITC, UNCTAD, UNDP, the World Bank and WTO, the six core agencies, coordinate their work with those of other donors and Least Developed Countries (LDCs) to respond to the latter's trade development needs. The integrated approach was launched in October 1997 at the High-Level Meeting on LDCs' Trade Development organized by the WTO in recognition of the supply-side constraints facing LDCs in enhancing their integration into the world trading system. At a meeting of the Heads of the six core agencies in June 2000, the IF was redefined to ensure more effective integration of trade mainstreaming with the national development strategies.

Following the designation of Zambia, at the request of national authorities, as an IF beneficiary country, a preliminary IF launch meeting was held in February 2004 with the

government, and donors. The IF is a participatory process which is managed by the Government, involving civil society and interested parties through the National IF Steering Committee. Following the request by the Government to participate in the IF a concept paper is prepared to guide the work during the diagnostic phase. The diagnostic phase results in the production of the Diagnostic Trade Integration Study which identifies the key constraints to Zambia's integration into the multilateral trading system and into the global economy. The DTIS will include recommendations for policy reforms, institutional capacity implications, and action plans to remove bottlenecks and to realize the opportunities.

The DTIS will be presented and discussed in a National Workshop which will focus on the strategies and program of technical assistance that will remove the bottlenecks and promote export competitiveness. Following these consultations with Civil Society and donors an Action Matrix will be produced. The Action Matrix will prioritize specific areas for intervention and follow up support.