The Doha Development Agenda Impacts on Trade and Poverty

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A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

Papers in the series

All these papers and the final report can be found at: www.odi.org.uk/publications/briefing/doha

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10. Poverty impact of Doha: Zambia

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Zambia in the WTO

As a Least Developed Country, Zambia is one of those countries which might be expected to have most to gain from a Development Round. But its trade patterns and the preferential access which it already has to both developed countries and its regional markets limit the additional benefits for which it can hope. Many of the constraints on its exports come from national disadvantages, both natural, as a land locked country, and developmental, the lack of the infrastructure on which economic activity depends.

The WTO has had less impact than regional agreements, such as COMESA (Common Market of East and Southern Africa), SADC (Southern African Development Community), ACP-EU (African, Caribbean and Pacific – European Union) and AGOA (The U.S. Africa Growth and Opportunity Act). Zambia is trying to use all these to diversify its economy, away from copper, and must use the WTO as well. This paper examines how trade can reduce poverty.

The economic and trade liberalisation in Zambia since 1991 has brought a mixed bag of fortunes – some positive, but to a great extent negative too. The impact varied from sector to sector. Some benefited from external markets opportunities (e.g. cut flowers, sugar, etc) and economies of scale. At the same time, several firms in the manufacturing sector (textiles and clothing, glass, paper, wood and wood products, leather, rubber, etc) lost not only sizeable domestic markets but also their limited export markets. There was a rise in the value of imports. External debt increased and the currency depreciated.

Poverty in Zambia

Zambia has experienced economic stagnation since the early 1980s mainly owing to fluctuations in earnings from copper exports. In 1998, 73% of the total population was poor of which 58% were said to be extremely poor. Poverty in Zambia is worse in the rural areas which have 63% of the country's population. Rural poverty was 83%, of which 71% were extremely poor, compared to the urban figure of 56%. This had deteriorated during the 1990s, from 81% in rural areas and 32% in urban areas. The human development index also deteriorated, and Zambia has a high degree of social inequality. The lowest 10% of the population account for a paltry 1.1% of national income whereas the top 10% take 41%. Female-headed households are generally more vulnerable to poverty than male-headed households. There are, however, indications that poverty has decreased in rural areas where farmers have better access to markets for their agricultural produce, especially those who engage in out-grower schemes for commercial crops.

Zambia's interest in the Agriculture Negotiations

Since the decline of the copper mining sector, Zambia has taken initiatives to develop the agricultural and horticultural products sector as a key to its economic growth. The sector has a vast potential for providing much-needed resources for development and also for poverty reduction. The withdrawal of subsidies, state marketing and administered prices during the liberalisation era created pressures and adjustment problems for the farmers, which are yet to be overcome. Small farmers were badly hit by the speed with which structural adjustment programmes were implemented during the 1990s. As a result of the sudden withdrawal of subsidies and state marketing and procurement schemes, rural farmers did not benefit from the introduction of a market price mechanism. Zambia did not provide social safety nets when the country introduced fast track economic liberalisation and privatisation during the 1990s.

The agricultural sector employs 85% of the labour force compared to 6% and 9%

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in industry and services respectively. Therefore, agriculture has the greatest impact on income earning potential, although agriculture exports (horticulture, floriculture, high value crops and primary agriculture) are only about 15% of total exports or GDP. In the post-liberalisation period the positive growth registered by the economy has largely been attributed to the good performance of the agricultural sector.

Except for a few horticultural products, which have markets in Europe, under preferential arrangements to the EU, governed by the ACP-EU Cotonou Agreement, or in the US, based on AGOA preferences, most exports go to regional markets such as COMESA and SADC. As a result, it is not a key player in agricultural talks at the WTO. Unlike many other LDCs, Zambia's interest in agriculture negotiations is not confined to a single product as export concentration is low. However, participation in the WTO agricultural negotiations is important for Zambia because of its large potential to enhance agricultural production and exports. It also receives food aid, so it has an interest in rules for that.

Zambia as a negotiator

As a member of the Least Developed and African groups, the position of Zambia is not always based on its own interest. For example, it supports special treatment for 'strategic products' for developing countries for food security and rural development, proposed by the Africa Group, although Zambia has hardly any strategic products. It supports exemption of LDCs from tariff reduction commitments, and preservation of existing preferences. Although Zambia benefits from agricultural subsidies in developed countries on two counts, the higher price for its sugar in the EU quota system and also food aid, it opposes such subsidies.

Although Zambia is a producer of cotton, it has not actively supported the cotton initiative led by cotton producers from West Africa, fearing that overemphasis on striking a deal in cotton could require costly concessions in other areas, such as the Singapore issues.

Non agricultural market access (NAMA) negotiations

Zambia has not been actively involved in NAMA negotiations at the WTO or at the Doha round as it is not a key exporter of manufacturing products and its principal exports, copper and cobalt, do not face tariffs. However, it has some interest in getting better access for textiles and clothing, leather and metal fabrications, copper cables, etc.

The textile and leather sectors have benefited from improved access to markets under COMESA and AGOA.

TRIPS and public health

The understanding achieved at the WTO just before the Cancún Ministerial on TRIPs reforms to address public health emergencies, was very important for Zambia. The country depends on imported drugs as it does not have own production facilities. The new rules will allow it to import cheap medicines, outside patent protection, from other developing countries.

Services negotiations

The share of the services sector in exports is relatively low. The major services exports are tourism, power and temporary movement of people in sectors such as health, etc. The importance of services in exports has not been well recognised.

Zambia could benefit by opening up key service sectors, such as telephony, email, hospital services, banking and insurance. This would also make the country attractive to FDI and reduce the cost of doing business.

It has not, however, been able to comply with the time frame to make initial requests and offers because of lack of both human and financial resources. Nevertheless, it has been active in the negotiations, participating in the request for special treatment for LDCs.

Trade facilitation

Zambia has not evaluated the pros and cons of trade facilitation. Being a land locked country, Zambia faces enormous difficulties in exporting and importing. At present those involve cumbersome procedures. It initially opposed negotiations on this because of the link to the other 'Singapore' issues, regulation of investment, competition policy, and government procurement, which it did not want to be included in the Round.

Other issues of concern in the Doha negotiations

Zambia has an interest in WTO rules for regional agreements, in making provisions for Special and Differential Treatment (SDT) for developing countries binding, and in ensuring that technical assistance programmes for LDCs are substantially increased.

Complementary measures

To take full advantage of any gains in access, domestic action is necessary to improve farmers' linkages to markets. Although market participation has begun to rise, less than half of farmers are selling to markets. Farmers should be helped to manage farming as a business and base production decisions on market information and trends. Interventions focusing on export markets and also domestic marketing have the potential to offer employment to a relatively large number of people in the rural areas, both directly and indirectly. Out-grower schemes, for example, offer low cost opportunities in the production of cotton.

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