

Trade liberalization and its impacts: Zambia case studies¹

Part 1: Introduction and methodology

Introduction

Two frogs fell into a big pail of milk. They were unable to jump out of the pail. Both started paddling in order to remain afloat. But one of them despaired after some time, felt he could not continue and got drowned in the milk. The other frog thought that the only way to survive was to carry on paddling and so went on for a couple of hours. Suddenly, he felt something solid under his feet. It was a lump of freshly churned butter that had been produced as a result of his paddling. Not only did this frog survive, he also got some butter in the bargain.

In the above story, substitute economic reform for the pail of milk, economic agents like firms for the frogs and economic benefits for the butter, and you have a story of the differential impacts of liberalization reforms. Some economic agents who are unable to make short to medium term adjustments to the policy reforms tend to go under, while others who are willing to use their ingenuity and effort to adjust to the changed circumstances eventually survive and reap the benefits of liberalization.

The story of the impact of trade reform in Zambia is no different. Trade liberalization has benefited some groups and left some other groups in a shambles. And of course, the differential impacts are more intricate than what is suggested by the fate of the frogs. As has been suggested in the earlier Overview paper on the linkages between trade, development and poverty reduction in Zambia, while there are undoubtedly winners and losers, the winners and losers are not always distinct groups and at times the same groups could win in some ways and lose in some other ways, and the net result may not be readily obvious. Nevertheless from a more holistic perspective, one could say that some sectors in Zambia have benefited, some more than others, while some other sectors have declined, as a result of trade liberalization.

Again, as has been stated in the Overview paper, it must be borne in mind that it is not easy to sift the impact of trade liberalization per se from that of the other liberalization and structural reform measures since they were all implemented almost simultaneously and one measure could have acted either as a catalyst or as an impediment to another. These other measures include privatization, strong fiscal disciplinary measures such as the introduction of the cash budget, public sector reform, liberalization in sectors such as agriculture, trade, finance and insurance with a view to boosting competition and private sector investment, and reforms such as the introduction of user charges in health and education.

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The Zambia Poverty Reduction Strategy Paper 2002-2004 recognizes the following aims of trade policy and export promotion in particular:

“Trade policy and export promotion are key to the expansion of the markets for domestically manufactured goods and ensuring international competitiveness in local production. The key issues here include the establishment of a fair domestic and foreign trade regime that facilitates trading to take place on a common set of agreed rules as opposed to discretion, and one that does not stifle domestic production and employment. The government will deal with matters of a symmetric access to markets, dumping, or export subsidies from major trading partners. In order to further encourage exports, bilateral, regional and multilateral trade regimes will be used to ensure that reciprocity is observed in leveling the playing field. Diversification of exports, especially manufactured tradeables, will be encouraged and modern commercial trading methods will be applied wherever feasible. The following measures will be taken to boost of export of manufactures during the PRSP implementation period:

- Train trade attaches and other staff involved in trade matters in market identification techniques and trade negotiation skills to ensure that Zambia extracts the optimum benefits from trade agreements and protocols.
- Identify export opportunities in markets that give Zambia preferential treatment for its exports such as the European Union under the Cotonou Agreement, and the USA market through the African Growth and Opportunity Act (AGOA). Export opportunities under COMESA, SADC, and similar regional bodies will also be pursued with added vigour.
- Establish Export Processing Zones (EPZs).
- Establish modern testing and calibration facilities at the Zambia Bureau of Standards. The use of other private sector testing facilities that meet the required legal and technical standards will also be encouraged.
- Encourage establishment of private sector testing and calibration facilities.
- Create an enabling environment for quality assurance for goods meant for both domestic and export markets”.

The reason for reproducing the above extensive quote is to show that Zambia and its government are quite clear about the aims of trade reform and the specific measures that the country should implement to realize those aims. Why then has trade reform policies not produced a uniform positive impact on all sectors and groups in the country? The purpose of the case studies presented in this Report is to address such issues. Specifically, their objectives are:

1. To understand why some sectors have experienced improvements in outputs and exports, some more than others, while some other sectors have been subjected to very adverse impacts;
2. To establish the positive lessons that could be gleaned from the success stories of some sectors;
3. To establish the policy stances and practices that, if avoided, could have prevented or mitigated the negative impacts in some other sectors.

Methodology

A sample survey, circumscribed by constraints of time and budget, was undertaken during the period November to December 2005. Two sectors were chosen for a detailed investigation. On the basis of available evidence, the sectors proposed were: the agro-processing sector as an instance of the positive impact of trade liberalization and the textile sector as an instance of the negative impact.²

From each of these sectors, a limited number of firms was carefully selected from Lusaka and the Copper-belt that would be broadly representative of the sectors, and the selected sectors were then studied at length. Details of the chosen sample are provided in the Appendix.

The emphasis of the study was primarily qualitative, although quantitative data deemed useful and pertinent, was elicited for the purpose of complementing qualitative information.

Information was gathered through one-on-one interviews with the Chief executive officers (CEOs) of the selected companies as well as with key personnel in industry and government. The list of those interviewed is again provided in the Appendix. The interviews were based on a list of critical questions that were posed to the interviewees. The interviews, however, were flexibly structured and conducted in the form of a bilateral dialog between the interviewer and the respondent. In this respect, the Delphi method of back-and-forth questioning and cross-questioning was employed in order to arrive at consistent insights and inferences.

This report attempts to describe the experiences of the two selected sectors as a whole and of the chosen firms. An analysis of these experiences is then made in order to derive lessons regarding the linkage between trade liberalization, growth and poverty reduction. For purpose of maintaining confidentiality, we shall not make significant allusions to information gathered from specific companies or from interviews with specific key personnel. Only statements on broad views and general inferences emerging from collective information will be made.

Part 2: The agro-processing sector

Activities of the agro-processing sector

Agro-processing involves turning primary agricultural products into other commodities for the market. In Zambia the Agro-processing sector comprises industries whose core activities include:

- Snack food production.

² We would like to reiterate that this is only to be understood in a typical sense. It does not imply that there were no individual success stories in the textile sector or individual failures in agro processing.

- Fruit and vegetable drying.
- Oil (from groundnuts, sunflower and seed cotton) and Honey Processing.
- Cereal Milling (maize, wheat, Soya beans, etc).
- Peanut Butter production.
- Sugar processing.
- Mushroom processing.
- Dairy products.
- Beef production
- Fish farming and distribution.
- Tea, tobacco and coffee processing.
- Poultry farming.

The agro-processing sector has generally enjoyed a reasonably good market in Zambia with a notably indigenous production structure in the sense that the industries use a significantly high quantity of local raw materials. In addition to its contribution to national income, agro-processing has the potential to increase income and access to food for the poor who largely depend on agriculture for their livelihood, by establishing small-scale processing businesses that can be carried out at homes and do not require huge investment. Thus, through this transmission mechanism agro-processing can potentially reduce poverty in a sustainable manner.

Impact of trade liberalization on the agro-processing sector

The respondents observed that the agro-processing sector has recorded growth and expansion in the recent past years. This is particularly attributed to the deliberate efforts by government to support the agricultural sector, which is the key resource sector for the agro-processing industry. The agriculture sector has enjoyed a lot support from the government in its deliberate effort to diversify the economy from the mining sector to other sectors deemed to have business potential. In this sense, farmers have been given a lot of security. The sector has grown in terms of the number of players and thus productivity has risen. As a result of competition the agro-producers have been forced to increase the ranges of their products, which have been made possible through increased mechanisation of the processing plants. Thus, the sector has witnessed a facelift in terms of new technology that has led to significant reduction in the cost structures.

Impact on specific variables

Product range: There has been an increase in product range resulting from the companies' deliberate policy of diversification undertaken to counteract possible adverse impacts of trade liberalization.

Productivity: There has been an improvement in productivity on account of low costs incurred through a significant use of local raw materials.

Turnover: Turnover levels in general have been satisfactory since most firms have been able to withstand competition with their foreign counterparts.

Profit: In general, firms have been viable and profitable and not overly perturbed by competition.

Employment: There has been an expansion in employment owing to diversification that has necessitated increased labour.

Investment and capital formation: There has been substantial recapitalization but this has occurred more on account of change of ownership through privatization.

Human resource development: This has occurred to some extent only in the highly technical operations that require highly technical staff.

Part 3: Textile sector

Activities of textile sector

The textile sector is very critical to the Zambian economy not only in terms of its capacity to contribute to the country's export earning, but also in terms of employment creation that the government desires to achieve in order to reduce poverty. Historically the textile sector has had an outstanding record of export earnings in Zambia. For instance the textile sector was the largest exporting industry in 1996 among Non-Tradition Export (NTE) sectors, and has been second to Primary Agricultural Commodities in the ensuing years despite the declining trend after 1997. It has been among the top two NTE earners since 1994 following expanded investment especially in cotton spinning. (see Export Board of Zambia, 2000).

Up until the onset of trade liberalization, Zambia had a well-established textile and clothing sector. But the sector which boasted of having over 140 companies in the 1980s and empowering over 25,000 Zambians through provision of jobs saw mass closures of garment factories and scaling down of operations especially of the textile sub-sector with the resultant employment levels dropping to below 2,500 (Chikoti et al, 2002). The Zambian textile sector comprised of highly mechanized parastatal and private companies in all the spheres of textile operations that were captured by the study sample. These include cotton growing, spinning, weaving, knitting and garment manufacture.

The country previously had a very good market for the whole range of products that the sector produced. Today, the textile sector is faced with serious challenges, which have led to a decline in productivity forcing a number of industries to close down. This gloomy situation has largely been attributed to trade liberalization that removed restrictions both internally and externally and thus brought about competition, which many local industries seem to have not been ready for due to the inefficient manner in which they were run as they enjoyed protectionist policies from government.

The textile sector in Zambia, just like everywhere else requires a number of raw materials amongst which cotton is major. Cotton growing in Zambia has been very successful, especially in the recent past years.

Commercial cotton growing was previously dominated by LINTCO. After the privatization of LINTCO, many other commercial farmers switched their focus to other alternative crops like maize because cotton growing had become unviable.

Today cotton production is highly dominated by out-growers schemes, a principle that involves the mobilization of local farmers who are supplied with some basic inputs as one incentive to keep them in business.

Zambia produces a wide range of products, which include cotton lint, cotton yarn, poly/cotton yarn, acrylic yarn, cotton fabrics and cotton yarn fabrics.

Impact of trade liberalization on the textiles sector

In the wake of the general economic liberalization measures implemented since the early nineteen nineties, there has been a steady erosion of purchasing power of the population³ and as a result domestic demand for most local products significantly reduced in the last well over 10 years of trade liberalization. This problem has been compounded by dominance of the traditional foreign markets by countries with stronger economies. In the case of the textile sector this meant that people could not afford to buy new clothes, a situation that led to the influx of imported fabrics, which in turn impeded local industrial production. For instance, *salaula* and other Chinese fabrics have greatly undermined the Zambian textile sector.⁴ This situation has forced a number of industries that have survived closure to reduce their productivity and this has resulted in low capacity utilization of the existing textile infrastructure leading to a substantial number of jobs loses.

There was consensus of view among the respondents in this study that the Zambian textile sector previously produced a wider range of products than is the case today. Further, the textile industries that have survived the effects of trade liberalization are those in cotton processing on account of an increase in cotton production in Zambia.

Respondents also alluded to the view that local industries do not enjoy the maximum benefit of close proximity to the suppliers of most raw materials including cotton, which is actually locally grown and ginned. The issue of import parity pricing in the case of local raw cotton supply came out prominently. It was observed that ever since the privatization of LINTCO, local raw cotton is quoted based on Liverpool price index

³ Average annual growth rate of the economic was close to nil and there was an increase in the incidence of poverty.

⁴ Prior to trade liberalization also there was an inflow of used clothing brought in by religious and charitable organizations for distribution on a non-profit basis to the poor. Subsequently, some private businesses too imported a whole range of used garments that could be bought by everyone. However, owing to restrictions imposed by import licensing and foreign exchange controls, the quantities of such imports were still small and did not pose any threat to the products sold by domestic textile firms.

causing local industries to bear the CIF costs, which includes the cotton price, shipping freight and insurance Cost. This unfair trade practice tends to push up the cost of production, which is in turn translated into high prices of the final products that are expected to compete with similar foreign products from countries whose price of local cotton is either controlled by government or ex-factory.

Lack of political will on the part of government to assist the sector was also a sore point with many respondents. They observed that unlike the South African textile industries for instance that enjoy lower production costs, economies of scale and greater capacity utilization, their Zambian counterpart firms do not enjoy these economic advantages since the Zambian government does not provide any form of subsidy or direct cash incentive payments for exporters including those that utilize local raw materials. While it is acknowledged that Zambia is a minor in as far as influencing international trade policies is concerned, there is need for it to put in place some safeguard measures to compensate for some unfair trade practices like import parity pricing. They further observed that such stimulant measures are practiced by a number of stronger economies like USA, China, and the EU to name a few, through the provision of subsidies.

Impact on specific variables

Product range: The sector has witnessed a decrease in product range caused by competition from foreign products and decline in people's purchasing power resulting from job losses.

Productivity: Apart from cotton growing, the sector has witnessed a significant decline in productivity owing to: (1) the dominance of the traditional markets and other foreign markets by the Asian tigers as a result of the removal of all quotas as per World Trade Organization (WTO) agreements in 2004; (2) inability to recapitalize; (3) high levels of indebtedness.

Turnover: Again, except for cotton growing, there has been a decline in turnover owing to reduced productivity and shrinkage of markets.

Profit: Most of the firms were just breaking even with their revenue structures prominently characterized by huge debts arising from domestic borrowing for restructuring, low productivity and shrunk markets.

Employment: There has been a major downsizing of the labor force as a result of decline in productivity. Only one firm in the sample experienced an increase in employment due to injection of capital by the shareholders and reorganization.

Investment and capital formation: All the firms surveyed have undergone substantial rehabilitations and mechanization necessitated by competition brought about by trade liberalization. Unfortunately the bulk of this investment is currently under-utilized because these firms have had to reduce production as a result of the shrinkage of the domestic markets.

- *Human resource development:* The local education curriculum does not offer any textile training and as such all firms have had to either train staff on the job or send them abroad for training. However, the sector has benefited from the local education curriculum in as far as support professions are concerned.

Counting blessings: How one company overcame

Within this sector that faced adverse challenges, we show what one company did to turn handicap to advantage.

“One of the major advantages of trade liberalisation is that it forced initiative on many business houses and individuals. Many companies realized the need to diversify. In our case we looked at cotton, whose supply was in few hands. Ginning of cotton was monopolized by private operators such as Lonrho, Clark cotton, today’s DUNAVANT and LINTCO that supplied us with most lint. But after privatization of LINTCO, these private operators monopolized the supply of cotton by forming what appeared to be a cartel that even regulated the prices. Unlike our company, the prime operation of these private operators was ginning of the cotton, which they sold both locally and abroad. Cotton lint was our main raw material on which the company spent two-thirds of its budget and thus we could not withstand the market conditions that prevailed as a result of the monopoly just alluded to.

The company therefore thought of setting up its own ginnery. We began by mobilizing local farmers and set up an out grower scheme. This idea won the support of one Indian firm. Our company sourced machinery from China and as a result a ginnery was set up in conjunction with this Indian firm. The objective of setting up this ginnery was to ensure consistent supply of lint cotton to our company and at a reasonable price. But this ginnery secretly began to supply cotton lint to other textile industries, and our company still did not get the benefits of close proximity to this ginnery. So we decided to set up a ginnery situated within our premises and this ginnery is still operational today.

To do this, we set up our own out-grower’s scheme by once again mobilizing local farmers whom we contract on some terms and we offer them some basic requirements on loan basis. This process is managed with the help of some extension officers who are trustees that ensure that all the cotton grown is supplied to our company.

Another advantage of trade liberalisation is that due to the shrinkage in our domestic market resulting from competition put up by *salaula* and other Chinese and Indian products, we were forced to start looking at other foreign markets such as Tanzania, Malawi, Mozambique and South Africa that we have managed to penetrate. In order to penetrate and sustain these markets, we had to improve the quality of our products by comparing them to imported products, which include *salaula*.

Maintenance of these foreign markets implies that the company has to move with time in all spheres of textile operations. This partly implies that the company has to keep

upgrading its machinery and has indeed tried its best to do so.

As a result of trade liberalisation our company has also been forced to diversify. The company is now able to produce cooking oil from cotton seed, through a subsidiary firm. The objective of this move was to broaden the economic base of the company considering the fact that our business operation has peak and off-peak periods. We have also used garment manufacturing to mitigate our off peak period experiences of low returns due to low sales.”

Part 4: Overall impact of trade liberalization

Causal links between trade, development and poverty

The discussion of the linkages between trade, development and poverty in this section is based mainly on the views of the respondents in this study.⁵

This study found evidence of wide but varying knowledge of the stakeholders regarding the link between trade, development and poverty reduction. It is the study finding that there is serious controversy regarding the impact of trade liberalization on economic development and its expected net effects on the living standards of the people. The key respondents also admitted that these controversial views are held worldwide. For instance, Tekere observes that, “Trade liberalization is one of the key elements of economic structural adjustments packages sold to developing countries by the Breton Woods Institutions, the WTO, bilateral and multilateral donors. It lies in the heart of the ‘New Washington consensus’ and has long been championed as a panacea to low economic growth being experienced in developing countries.”

Achievements of South East Asia strongly support the view that export led growth policies serve as an engine for enhancing social welfare, human development, economic growth and development as well as serving as a mode for greater integration of these countries into the global economy. But contrary to such experiences, and particularly in Africa, there is conclusive evidence regarding the adverse role and impact of trade liberalization and globalization on human development, livelihoods, social welfare and economic development. Few African countries have benefited from trade liberalization (World Bank 1995, 1996) while in a number of cases liberalization was followed by misery, increased hardships, deterioration of human development, destruction of poor peoples’ livelihoods, environment, high rates of inequality, marginalization of poor of countries and their communities.

The general view of the respondents in this study was that trade liberalization has had a direct casual link to poverty through the manner in which it has affected wages and employment, taxes and government spending and through the distribution of goods and services. The main channels through which trade shocks including trade liberalization have been transmitted into poverty impacts may well be appreciated by using Winter’s (2000) analytical scheme, which provides a conceptual framework for interpreting the casual link between trade policy and poverty.

Distribution channels

Before any good reaches the consumer it passes through many stages on its way to or from the border. Each of these stages attracts a cost through transportation and tariffs that most often are transferred to the consumer and in turn reduces the proportionate impacts that are supposed to be felt by the consumers.

⁵ Discussion based on the literature is provided in the Overview paper

Wages and employment

This was noted by all respondents as one key mechanism by which foreign shocks are translated into poverty impacts. In Zambia the effects of trade liberalization on the domestic enterprise immediately caught public attention. In this regard, the loss of jobs resulting from privatization, acting hand in glove with trade liberalization, was the most common reason.

Taxes and spending

Winter (ibid) observes that, “A major fear, although not universally justified by any means, is that trade liberalization reduces government revenue. If the compensatory increases in other taxes or decreases in expenditure impinged heavily on the poor, poverty could be exacerbated.” Many respondents observed that a number of companies have either gone under or have relocated since the advent of trade liberalization and thus viewed this situation in terms of the potential revenue that would have accrued to government had these companies continued to operate.

Other views and counter views

The study, however, also found some counter views to the above causal link between trade liberalization and poverty. The supporters of trade liberalization generally maintained that in a globalizing world liberalizing trade was inevitable. They further argued that trade liberalization was a good policy in that it raises the income of the poor by raising overall income, with insignificant effects on the distribution of income.⁶

Among the most significant findings of the survey is that stakeholders’ support for trade liberalization in fact remains strong. All the people interviewed were in favour of trade liberalization but were against the manner in which it was implemented in Zambia. They observed that trade liberalization should have been implemented slowly and with extra caution to allow local industries to adapt to the liberalized environment.

Liberalization should have been implemented over a period of time. Opening up to trade meant that Zambian industries had to make adjustments to deal with greater international competition. Thus, the government should have begun by building capacity in all the domestic firms, by way of re-evaluating the existing capital as a deliberate measure of the ability of the local industries to adapt to greater international competition that was necessitated by trade liberalization.

One of the strongest messages respondents voiced was that local industries were not prepared for competition necessitated by trade liberalization, and thus needed support in terms of easier access to credit in order to enable them to restructure their operations to suit the new environment. The government overlooked the fact the local industries required re-orientation to enable them to withstand competition that was brought about by trade liberalization. The local industries initially enjoyed lucrative domestic markets

⁶ Some respondents admitted that it may not be possible for them to provide statistics to justify their views.

under a protected economy. Since the advent of the free market doctrine of trade liberalization, which has seen the lifting of restrictions on imports, the domestic market has experienced an excessive supply of imported products that are sold cheaply due to their lower production cost structures as compared to those of our local products. This problem is exacerbated by Zambia's geographical position. Zambia is a landlocked country and thus local industries do not have ease access to other foreign markets and if they do they incur huge inland transportation costs.

There is need to review the cost structures of many other inputs, which include electricity in order to help the local industries enjoy the benefits of close proximity to local producers of these inputs. Our electricity for instance, is hydro-produced and should therefore be reasonably cheap. By so doing we will be able to counter the natural disadvantages that Zambia is faced with.

Most of the respondents observed that following the general decline in the buying power of the population domestic demand for most local products has significantly reduced in the last well over 10 years of trade liberalization.

The respondents observed that most of the industries that have gone under especially the parastatal companies, would not have survived even in the absence of privatization. From this point of view it is not accurate to conclude that trade liberalisation led to loss of employment to a number of people because more jobs would still have been lost had privatization not taken place. What is a more realistic conclusion therefore is that as a result of trade liberalisation there has been a creation of more real and sustainable employment. In addition there has been an increase in the total volume of economic activities amongst the local people, especially the poor who are engaged in various other activities due to ramification of other core economic activities into the informal sector. For instance, from by-products such as cotton and lint waste as well as off-cuts, small-time businessmen are able to make various items in the range of furniture, mattresses, doormats, mops etc. In addition, the influx of a wide variety of goods on the local markets has bred another category of small-time businessmen who are engaged in the redistribution of some of these goods through repacking.

The general view that the appreciation of the kwacha has had detrimental effects on the income levels of export-oriented businesses was also overwhelming. The respondents observed that while they realise that it has benefited some people there is need for the government to quickly look at the tradeoffs of the kwacha appreciation. There is technically very little that the gain in the strength of the kwacha has done to drive down the production costs to warrant any reduction in the general price levels. This is especially so in the case of those industries with bulky inventories that takes a long period to consume. Besides, these are materials that were acquired at an old exchange rate and thus, it would not make any business sense to arbitrarily reduce the price just because of the current strength of the kwacha. The respondents were not only uncertain about the sustainability of the strength of the kwacha but pointed to the view that such fluctuations in the exchange rate tends to introduce speculations in the economy, a situation which may undermine business. They observed that we have a few lessons to

learn from, which include the South African experience of the appreciation of the Rand on the local economy.

How one company has been affected by a 'strong' kwacha

“Our company has been severely affected by trade liberalisation in a number of ways. First and foremost, it would be important to note that our company has two cash flow streams namely, the dollar and kwacha cash flow streams. Our company is disadvantaged in meeting kwacha expenses because it is not receiving sufficient kwacha from trading on the domestic market. The dollar cash flow stream equally gets negatively affected when there are serious fluctuations in the exchange rate, as is the situation today. We are made to understand that the kwacha is gaining strength for two reasons. Firstly, that there has been debt forgiveness and therefore government’s demand for kwacha has substantially reduced because it doesn’t have to service debt. Secondly, the effect of high copper prices implies that more dollars are coming in and thus market forces are making the kwacha stronger. So, for an export-oriented industry like ours, this situation has a negative impact in that the company is making less money.

In our view, the kwacha has been overvalued causing imports to become much cheaper, and our export drive to start tapering off, and if this situation persists, our company will become unviable. This situation is artificial in the sense that the spill over positive effect of the strength of the kwacha is supposed to be transmitted to our industry and many others, through reduced production costs. Many times that the strength of the kwacha has dropped, the resultant effect has been to increase the cost of key production inputs such as labour (in terms of wages), electricity and petroleum products and thus generally raising the rate of inflation. The reverse of this situation is rarely if at all, enjoyed by the local industries. For instance, there has never been a reduction in wages due to an increase in the strength of the kwacha. In any case, our wages are much higher than those obtaining in similar mills in India for instance.

The foregoing being the state of affairs, you cannot expect our industries to remain competitive with the globalisation of today’s world.”

The respondents acknowledged the view that a number of industries were sacrificed in the process of liberalising but a few have also come on board. So what the government needs to realise is that most of these industries are still in their infancy and thus need protection to grow and become competitive.

The respondents pointed to the need for government to promote effective public-private partnership. Government must realise that private-sector-led growth requires that there is coherence in policy and activities at all levels between the public and the private sector. To this end the respondents were happy to note that government is currently reviewing a

policy document that will promote policy coherence and adequately take care of the needs of the private sector's development strategy.

The respondents also pointed to some institutional flaws such as the difficulties faced when VAT claims are due. The government has made a number of products including milk VAT exempt. This has been good on paper but not quite in practice. It has been extremely difficult to claim this VAT and this practice has simply introduced distortions in that this VAT is viewed as an added cost of production that is transferred to the consumers through inequitable pricing.

There was a hostile view pertaining to the current labor laws. There was consensus on the view that liberalisation was implemented in piecemeal in the sense that the labor market for instance, is still not liberalized. Trade unions still have a great influence in industrial relations and this situation has destroyed the general work culture in Zambia. Employers have developed an antagonistic attitude towards their employees because they are too protected by their Trade Unions.

Many of the respondents observed that the general situation in Zambia today is that most financial institutions are ready to avail credit to local investors, but the cost of borrowing as reflected by the high lending rates in excess of 40 percent per annum, makes it prohibitive to borrow. In this sense credit would be said to be unavailable. The respondents also observed that this problem has been compounded by persistent high inflation rates, which further reduces the revenue bases of the individual industries and thus rendering them unable to service their existing debt obligations. In the long-term these industries are unable to re-capitalize, and thus fail to match the current technology required to keep them competitive.

Part 5: Conclusions and recommendations

Conclusions

The study findings clearly demonstrate the stakeholders' general view that while they acknowledge trade liberalisation as a good policy that has been adopted world wide, they do not support the manner in which its implementation in Zambia was rushed.

Our findings suggest that generally speaking most closures of our local industries appear to have been caused by opening up of the markets to international imports and also by the stiff domestic competition promoted by trade liberalisation. Consequently, redundancies emanating from liquidations and privatization of parastatal companies contributed to the deterioration in the living standards of the people.

As earlier alluded to trade liberalization aimed at creating a competitive and productive economy, which would be driven by private sector initiative with a view to enhance living standards for Zambians. Contrary of these expectations the stakeholders' general

view is that since the advent of trade liberalisation the Zambian economy has been characterized by increased hardships among the poor, destruction of infrastructure and hence the environment. The number of firms have been closed is higher than that of the ones that have come on board. Thus, the rate of unemployment has increased resulting in the general decline in the purchasing power of the people. The income gap between the rich and the poor has widened resulting in increased inequality and marginalization of the poor. In summary, poverty has actually increased as opposed to the expected benefits of trade liberalisation.

However, notwithstanding the above shocks, since the advent of trade liberalisation the Zambian economy has witnessed the emergency of small scale entrepreneurs who are mostly middlemen and those engaged in re-processing and thus providing some form of employment and income to the poor.

Recommendations

Zambia should take extra caution when signing any international trade protocols because most of her industries are in their infant state and thus cannot absorb the shocks of having to compete with giant foreign counterparts including some of those in the region. This implies that Zambia does not seem to have the supply side capacity to exploit the opportunities that would be given under any international agreement. Foreign products have led to the closure of a number of local industries and thus Zambia has had a good lesson from which to prevent further adverse impacts.

Thus, Zambia must re-assess the gains from some of the trade agreements that have already been signed under COMESA and SADC. The benefits have so far not been overwhelming;⁷ hence the need to defer those agreements that have not yet come into effect such as the SADC trade protocols due to come into effect in 2008. For instance, we should realize the danger of 100% removal of duty on wheat, under the SADC trade protocol. Once this agreement is effected Zambia's traditional market will be dominated by foreign industries from giant economies like South Africa. These international trade protocols have introduced unfair trade practices that have in turn killed local production, hence the need for a more strategic approach.

The business community in Zambia has also taken too long to adjust to the liberalized environment. This slow process of adjustment is largely attributable to government failure to provide the necessary direction like has been the case with a few sectors, which include among others the agricultural, the transport and the financial sectors. The financial sector for instance, had over the years remained widely underdeveloped, but has in the recent years improved and is able to harness local savings to support investment although the cost of borrowing is still high.

It should be realized that trade liberalisation is just one necessary condition for economic growth and not a sufficient condition to reduce poverty, especially given the asymmetrical relationship between economic growth and poverty reduction. Generally

⁷ As an example, Kenya does not pay duty on oil but Zambia pays 15%.

the objective function of most businesses is to maximize profits and thus in order for trade liberalisation to benefit the poor there has to be coherence between trade policies and national development policies.

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Appendix

Firms selected in the agro-processing sector

Specialty Foods Zambia Limited

1. Snacks,

2. Corn puffs
3. Peanut butter
4. Baking powder
5. Custard powder
6. Soya baby porridges
7. Honey
8. Vinegar

Amanita Group of Companies

1. Cooking oil
2. Rice
3. Snacks
4. Salt
5. Meal

National Milling Corporation

1. Mealie meal (break fast and roller meal)
2. Flour (break, cake, delight flour)
3. Maize bran
4. Castle grit
5. Maize samp
6. A variety of stock fees

Parmalat

1. Plain milk
2. Flavored milk
3. Cabana
4. Lacto milk.
5. Yoghurts
6. Two ranges of juices

Hybrid Poultry Farm

1. Chickens
2. Eggs

Firms selected in the Textiles sector

Zambia-China Mulungushi Textiles Joint Venture Limited

1. Cotton ginning
2. Spinning
3. Fabric weaving and knitting

Excel Textile Mills Limited

1. Cotton ginning
2. Spinning
3. Fabric weaving and knitting

Mukuba Textiles Limited

1. Spinning
2. Fabric weaving and knitting

Kafue Textiles Limited

1. Spinning
2. Fabric weaving and knitting

Swarp Spinning Mills

1. Spinning
2. Fabric weaving and knitting
3. Garments

Sankiza Spinning Limited

1. Spinning

Gloria Knitting Company Limited

1. Fabric weaving and knitting

Caress Lingerie

1. Garments

Key personnel interviewed

- Executive Director, Zambia Association of Chambers of Commerce and Industry, ZACCI, Lusaka
- Chairman, Zambia Association of Manufacturers, ZAM, Lusaka
- Mark O'Donnell, Managing Director, Union Gold Zambia Limited, Lusaka
- Murray Sanderson, Hon. Secretary, ZIPPA
- A.E. Chembe, Economist, Zambia National Farmers Union, ZNFU
- One senior Government representative, Ministry of Commerce, Trade & Industry
- Chairman, Economics Association of Zambia, Lusaka (to check if they have commissioned any research work on the project theme)

