

Impact of Trade and other Partnership Agreements on the National Budget

Submitted to the

Budget Committee

By the

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Submitted: 23rd November, 2020

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1. Introduction

This memorandum is aimed at providing the Parliamentary Committee on Budget matters, with an in-depth analysis of the impact of trade and other partnership agreements on the national budget and to provide a recommendation on the way forward. This memorandum therefore covers the following:

- i. The policy and legal framework governing trade agreements;
- ii. Outline of the existing trade agreements and their impact on the national budget during the 7NDP (2017-2021);
- iii. Measures put in place to enhance strategic trade partnerships that promote the competitiveness of Zambia's industries;
- iv. The net revenue gain or loss arising from trade agreements during the period of the 7NDP (2017-2021);
- v. The challenges being faced by Zambian industries in accessing the regional markets despite existing key partnership agreements; and
- vi. The way forward regarding trade and other partnership agreements.

Ultimately, from the evidence in the main body of this memorandum, we recommend that Zambia should strengthen its industrial capabilities in order to maximise the benefits from the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) trade agreements. In doing so, the country will be able to compensate for the costs associated with trade agreements that have an impact on the national budget. Going forward, the country should also undertake a comprehensive cost-benefit analysis of the various trade agreements to determine which of these agreements provide the greatest benefits to the country.

2. Why engage in Trade and other Partnership Agreements?

Over the past three decades, the global economy has been witnessing an unprecedented phase of trade and partnership agreements. This process was triggered by the adoption of open-door policies by almost every major economy. Several countries sought ways of forging close relations with their immediate neighbours, while some developed countries particularly sought ways to accord differential and more favourable treatment to developing countries. This paved the way for the formalization of agreements aimed at increasing regional and bilateral trade. These initiatives were reinforced in 1995 with the establishment of the World Trade Organization (WTO). Even in Africa, the Abuja Treaty of 1991 laid out the blueprint for the creation of new trade agreements known as regional economic communities (RECs), to act as building blocks for the ultimate creation of the African Economic Community. Which is Africa aspiration for complete economic, monetary, political, social and cultural integration in Africa. Beyond trade liberalisation, countries also cooperate in other areas of socioeconomic development namely investments, regulation, financial stability, peace and security, project and programme development and financing, infrastructure development, pandemics, food security, capacity development etc.

There are various theories that seek to explain the benefits resulting from trade and other partnership agreements.¹ Among these theories are the traditional theories of trade which argue that trade and other partnership agreements enhance efficiency and the welfare of member countries *i.e.* as member countries eliminate trade barriers among themselves, they allow consumers and producers to purchase from the cheapest and most competitive source of supply.² Besides the theories, advocates of economic integration contend that trade and other partnership agreements present various opportunities for developing countries like Zambia. Among the trade benefits are: enhanced market access; decreased costs for importing consumer, intermediate and capital goods; enhanced inflows of foreign direct investment (FDI); access to improved technologies; and increased participation in global/regional value chains.³ These opportunities can in turn foster higher economic growth, employment growth, and ultimately lead to substantial reduction in poverty.⁴ Other benefits include infrastructure development, conflict prevention and management, private sector development etc.

Consequently, there has been a proliferation of agreements in the last three decades which have resulted in the unprecedented expansion of global trade and incomes. It therefore comes as no surprise as to why developing countries such as Zambia have taken keen interest in trade agreements especially if the resultant expansion in economic activities, exports, employment more than compensates for the financial and other socioeconomic costs which are discussed later in Section 4. While there are both trade and other partnership agreements, in the proceeding sections, we solely focus on trade agreements, specifically SADC and COMESA, and draw attention to their impact on the National Budget.

3. Policy and Legal Framework

In Zambia, the Ministry of Commerce, Trade and Industry is the Government institution mandated to formulate trade policies and regulations in collaboration with a number of agencies falling under it and other line ministries whose mandates relate to trade. Zambia's trade policy and legal framework are defined in various national documents and statutes aimed at promoting a prosperous and diversified economy by 2030.⁵ These policy documents include: the Vision 2030, the National Trade Policy (NTP), the National Industrial Policy, National Exports Strategy (NEST), the National Local Content Strategy (2018–2022) and successive national development plans – the most current being the 7th National Development Plan (7NDP). In essence, these policy documents strive to make Zambia a structurally transformed, diversified, industrialized and a net exporter of value-added goods and services, as they set out a framework under which trade is conducted in Zambia.⁶

The overarching legal backing for international agreements and treaties is drawn from the Constitution of Zambia which confers powers on the National Assembly to approve international agreements and

¹ NBT (2020). *Textbook on Trade Policy and Development*, Sweden: National Board of Trade Sweden.

² Jha, S. (2011). Utility of Regional Trade Agreements: Experience from India's Regionalism. Asia-Pacific Research and Training Network on Trade. APRTNeT Working Paper Series, 99.

³ NBT (2020)

⁴ NBT (2020). *Textbook on Trade Policy and Development*, Sweden: National Board of Trade Sweden.

⁵ NBT (2020). *Textbook on Trade Policy and Development*, Sweden: National Board of Trade Sweden.

⁶ *Ibid*

treaties before they are acceded to or ratified [Constitution of Zambia (Amendment) No 2 of 2016: p21]. This piece of legislation is further supported by the Ratification of International Agreements Act No. 34 of 2016 which outlines the procedure of accession. Under this Act, the Minister responsible for trade and other international agreements initiates the process of ratification by way of Cabinet Memorandum⁷ to Cabinet seeking approval of the proposal to ratify an international trade agreement. In the event of a Cabinet approval, the proposal is then submitted to the National Assembly for ratification. The Customs and Excise Act is another statute that forms part of the legal framework governing trade agreements. The Act provides for the imposition, collection and management of customs, excise and other duties.

4. Trade Agreements in the Zambian Context

4.1. Overview of Zambia's involvement in Trade Agreements

Zambia like many other countries has sought to forge closer ties with regional countries and to be part of the multilateral trading system through its membership to the WTO and the various RECs. Since the 2000's, Zambia has signed various trade and partnership agreements at the bilateral, regional and global level to liberalize trade.⁸ Within the regional trade initiatives, Zambia is a member of Southern African Development Community-Free Trade Area (SADC-FTA) and the Common Market for Eastern and Southern Africa (COMESA) Customs Union and has been since 1980 and 1981 respectively. The country has also signed the recently launched but yet to be ratified Tripartite Free Trade Area (TFTA) between COMESA, East African Community (EAC) and SADC, and the continental-wide African Continental Free Trade Agreement (AfCFTA). At the global level, as a Least Developed Country (LDC), Zambia enjoys non-reciprocal preferential access to Developed country markets under Part 4 of the GATT.⁹

The country also enjoys non-reciprocal duty-free access for its exports to the EU market under the Cotonou Agreement, which allows African Caribbean Countries (ACP) countries (excluding SA) duty free access for their mineral and agriculture exports.¹⁰ In addition, Zambia also has non-reciprocal duty free access to the European Union (EU) market under the Everything But Arms (EBA) agreement, the United States (US) under the African Growth and Opportunity Act (AGOA) and enjoys preferential tariffs under the Generalized System of Preferences (GSP) granted by the EU, the US, Japan and Canada, among others.¹¹ As an LDC, Zambia has also signed a number of Bilateral Trade Agreements (BTAs) with other developing countries such as China, India, Chile, Morocco to mention a few, following the Hong Kong WTO Ministerial Declaration in 2005 which called on

⁷ This memorandum should detail the objectives of the international agreement, constitutional implications, national interests that may be affected by the ratification, obligations of the state, requirements for implementation, policy considerations, financial implications etc.

⁸ OECD (2001), *New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century: Growth, Technology Transfer and Foreign Direct Investment*, OECD Publications Service: Paris.

⁹ www.wto.org

¹⁰ Turkson, E. F. (2012), "Trade Agreements and Bilateral Trade in Sub-Saharan Africa: Estimating the Trade Effects of the EU-ACP PTA and RTAs", Credit Research Paper, 12/07.

¹¹ UNCTAD (2016), *Zambia: Harnessing the Potential for Trade and Sustainable Growth in Zambia. Trade Policy Framework*, United Nations: New York and Geneva.

developing countries in a position to offer Duty Free – Quota Free (DFQF) access to LDCs, to do so.¹² The country is also a member of the WTO where it enjoys lower trade barriers to both developed and developing country markets through the Most Favoured Nation (MFN) principle.

4.2. Impact of Trade Agreements on the National Budget during the 7NDP

Notwithstanding their benefits, trade agreements are associated with fiscal costs that can negatively affect the allocation of scarce resources in the national budgets and potentially widen the fiscal deficit. For instance, in 2019, customs duty as a percentage of tax revenue accounted for 6.1% of total revenues and grants.¹³ The elimination of customs duties on imports in free trade agreements therefore implies foregoing customs revenue which forms part of total domestic revenues required to meet various competing social and economic needs.

Table 4.2.1: Total Revenue Foregone on account of various Trade Concessions, 2019-2016 (K' million)

Description	2016	2017	2018	2019
COMESA Free Trade Area	199.49	173.20	274.90	273.50
SADC Trade Protocol for non-RSA	303.32	358.45	386.20	535.30
SADC Trade Protocol for RSA	2,044.67	1,853.42	2,239.10	2,321.50
Other	2,425.72	2,596.53	3,319.60	5,763.80
Total Revenue Loss	4,973.20	4,981.60	6,219.80	8,894.10
Fiscal Deficit	7,756.99	16,280.08	16,919.28	19,406.76
Revenue Loss % of Fiscal Deficit	64%	31%	37%	46%
Revenue Loss % of Fiscal Deficit for SADC & COMESA concessions only	33%	15%	17%	16%
Fiscal Deficit % of GDP	3.6%	6.6%	6.1%	6.5%

Source: Author's Construction based on Zambia Revenue Authority Annual Reports 2016-2019 and 2016-2019 Fiscal tables

Note: Other includes concessions accorded by statutory instruments, on imports made by public benefit organisations, on imported goods for development programmes, disabled persons and diplomatic use, on imports of personal effects by returning residents, on goods for investments approved by the Zambia Development Agency, imports of fuel, etc. These concessions vary from year to year depending on the challenges the Government intends to address in a particular year. For example, additional concessions were made in 2020 in response to the Covid-19 pandemic.

In table 4.2.1 above, using data from the Zambia Revenue Authority (ZRA) annual reports, we illustrate the revenue Zambia has foregone on account of various trade-related concessions over the period 2016-2019. Notably, this only covers part of the 7NDP period – 2017 to 2019 – which is the most recent period for which data is available. In the same table, we also illustrate the revenue loss as a share of the fiscal deficit to gauge the significance of the revenue loss relative to the shortfall of revenues required to meet the planned expenditures in the national budget.

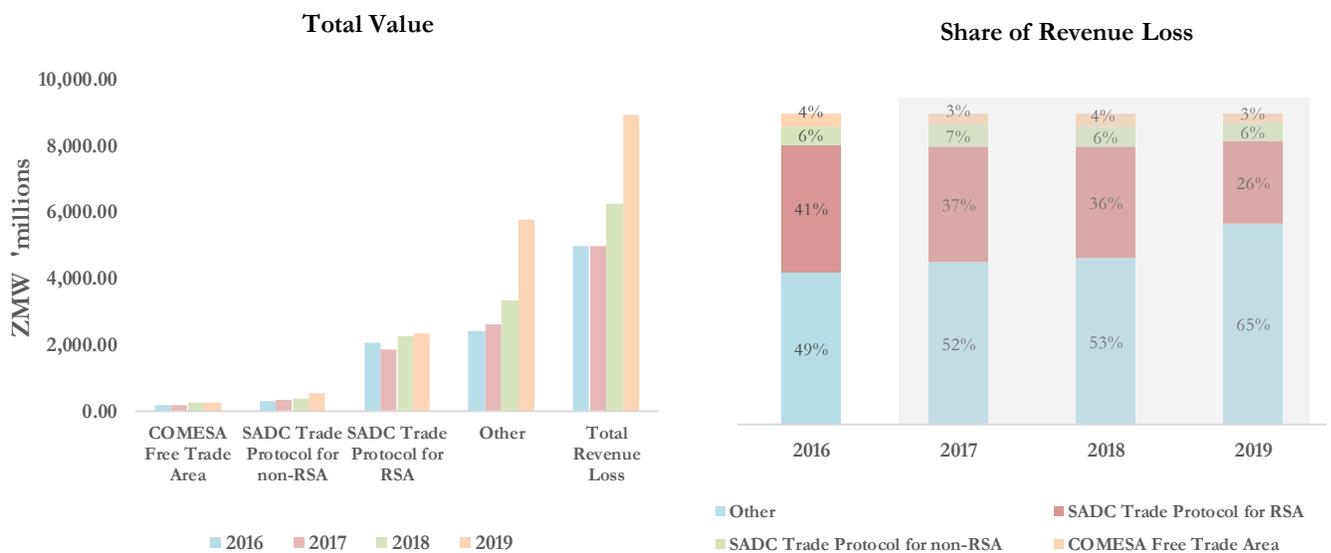
¹² UNCTAD, (2018), *Handbook on Duty-Free and Quota-Free Market Access and Rules of Origin for Least Developed Countries*, United Nations: New York and Geneva.

¹³ Ministry of Finance Fiscal tables

Overall, the total revenue foregone from trade-related concessions has been increasing over the 7NDP period. Particularly, a marked increase is observed between 2018 and 2019. The revenue foregone increased from ZMW6.2 billion in 2018 to ZMW8.8 billion in 2019, representing a percentage increase of 43%. This was largely driven by the huge increase in the revenue forgone from the category of ‘other’ concessions that increased by 74% over the same period. When we exclude ‘other’ trade-related concessions’ and focus strictly on revenue loss from Zambia’s membership to regional economic communities, namely COMESA and SADC, we observe that the revenue loss has remained quite moderate. On average, the revenue loss from concessions under COMESA increased by 16% per annum from ZMW173 million in 2017 to ZMW273 million in 2019.

Under SADC (excluding South Africa), on average, revenue loss increased by 14% each year from ZMW358 million to ZMW535 million. And for revenue loss under SADC trade concessions with South Africa, the revenue loss grew at 8% per annum from ZMW1.8 billion to ZMW2.3 billion. Despite this relatively slower growth, after ‘other’ concessions, SADC (including South Africa) accounts for the largest share of revenue loss averaging 40% over the 7NDP period. But this share has been reducing over time (see Figure 4.2.1 below). The share of the revenue loss from COMESA is less significant averaging 4% over the period 2017 to 2019.

Figure 4.2.1: Revenue Loss by Trade Agreement



Source: Author’s Construction based on Zambia Revenue Authority Annual Reports 2016-2019

But how significant is the impact of the revenue loss on the national budget, particularly, on the fiscal deficit? To answer this question, we calculate the revenue loss as a share of the fiscal deficit over the 7NDP period (2017-2019). In Table 4.2.1 above, we show that on average, the total revenue loss from all the trade concessions accounts for roughly 38% of the fiscal deficit, which is quite considerable. Zeroing in on COMESA and SADC exclusively, on average, the revenue loss is estimated at 16% of

the fiscal deficit each year which is less considerable. All the same, it has an impact on the national budget and on the fiscal deficit. To contextualise this, in 2019, the projected fiscal deficit as a percentage of GDP was estimated at 6.5%. Hypothetically, if we were to include the revenue lost under the COMESA and SADC trade agreements, the projected fiscal deficit could have been reduced to approximately 5.4% of GDP, consequently entailing less need to borrow.

Apart from the revenue foregone, there are other direct fiscal costs associated with annual subscription fees that Zambia has to pay for its membership to these trade agreements. Zambia also bears the operational costs associated with meetings held under such agreements. All these translate into expenditure lines in the national budget that arguably, could be redirected to financing other key socioeconomic needs. Table 4.2.2 illustrates the annual subscription payments to SADC and COMESA over the 7NDP period 2017 to 2020, and their share of the total budget and fiscal deficit. On average, the country spends about 0.02% of its annual budget on subscription fees to COMESA and 0.02% on subscriptions to SADC. For COMESA, the earmarked value of subscriptions has reduced over the period from ZMW14.1 million in 2017, to ZMW13.3 million in 2020. Conversely, the value of subscriptions to SADC have been growing at a fast rate of 24% on average per annum accordingly increasing from ZMW15 million, to ZMW28.6 million. The share of the fiscal deficit is also negligible averaging 0.08% and 0.12% per annum for COMESA and SADC respectively. Although the share of the subscription payments are low relative to the total budget and fiscal deficit, the payments are a strain on the national budget as this money would be used in other sectors of the economy.

Table 4.2.2: Annual Subscription Payments to COMESA and SADC, 2017-2020

	COMESA			SADC		
	ZMW	(% of total budget)	(% of fiscal deficit)	ZMW	(% of total budget)	(% of total Fiscal deficit)
2017	14,128,885	0.02%	0.09%	15,000,000	0.02%	0.09%
2018	12,106,110	0.02%	0.07%	14,906,790	0.02%	0.09%
2019	13,380,435	0.02%	0.07%	28,644,000	0.03%	0.15%
2020	13,380,435	0.01%	0.07%	28,644,000	0.03%	0.16%

Source: 2016-2020 Yellow Books – National Budgets

Beyond direct financial costs, there are indirect costs on the budget. Trade agreements encourage trade liberalisation which exposes domestic firms to fierce import competition. Inadvertently, this may lead to the collapse of industries that are still in their infancy or have not grown their capabilities to match foreign producers. Consequently, domestic economic activities may shrink and in tandem, taxes may shrink as well thereby straining budgetary resources.

On the upside, there are fiscal benefits that can be derived from trade agreements that can compensate for the loss in revenue from the elimination of import tariffs, subscription fees and other operational (meetings) costs. Trade agreements have the potential to increase income taxes paid by firms if firms are able to take advantage of these agreements and expand their output for both domestic and export

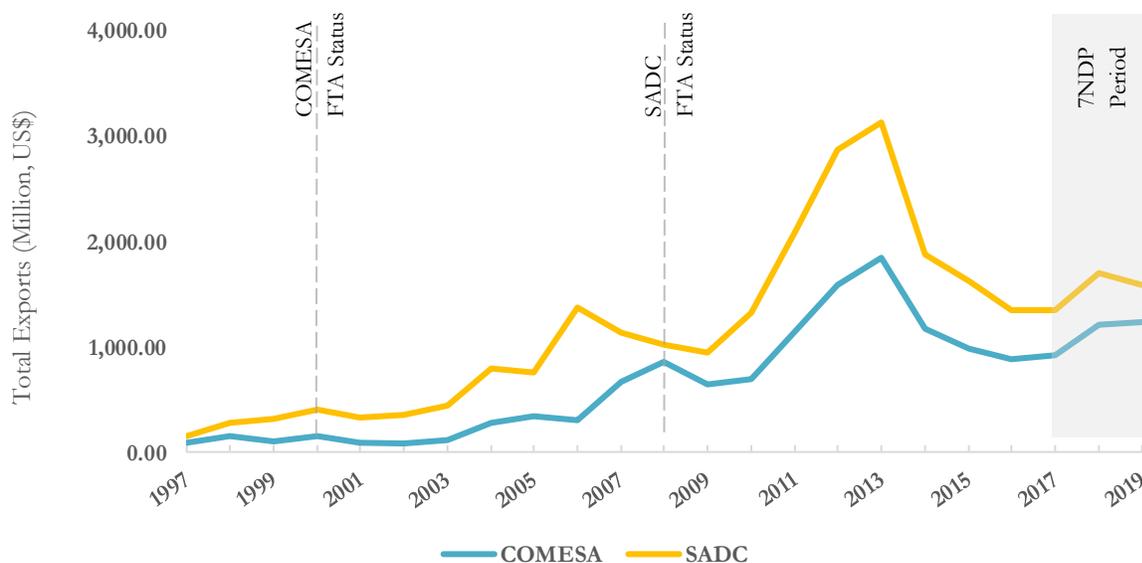
markets.¹⁴ This is based on the assumption that trade agreements lead to an expansion in economic activities, increased FDI amongst other benefits that can potentially increase income taxes for the Government.¹⁵

In the next sub-section, we analyse some of these potential benefits and conclude on what could be the net gains and losses of the COMESA and SADC trade agreements. Owing to data constraints, it is difficult to isolate the fiscal gains (taxes) from trade. We therefore solely rely on exports to gauge these benefits. To understand the net gains from trade agreements, we assess changes in the value of Zambia’s exports before and after trade liberalisation and also during the 7NDP period. We assume that an expansion in exports following these trade agreements entails an expansion in economic output, revenue and thus income and other taxes paid by firms. This is a very crude measure that only provides an indication of the potential but not definitive benefits.

4.3. Net Gains and Losses from Trade Agreements

COMESA attained free trade status in the year 2000 whereas SADC became a free trade area in 2008.¹⁶ Coincidentally, the country has observed a surge in Zambia’s exports to COMESA and SADC member countries following the elimination of customs duty in both RECs (see Figure 4.3.1). Notably, this take-off was not immediate. We observe what could be an adjustment period after full liberalisation under COMESA. Zambia’s exports dipped after 2000 but picked up after 2003.

Figure 4.3.1: Zambia’s Exports to SADC and COMESA, 1997 -2019



Source: Author’s construction from COMSTAT

¹⁴ World Trade Organisation/World Bank (2015). The Role of Trade in Ending Poverty. <http://documents.worldbank.org/curated/en/726971467989468997/pdf/97607-REPLACEMENT-The-Role-of-Trade-in-Ending-Poverty.pdf>

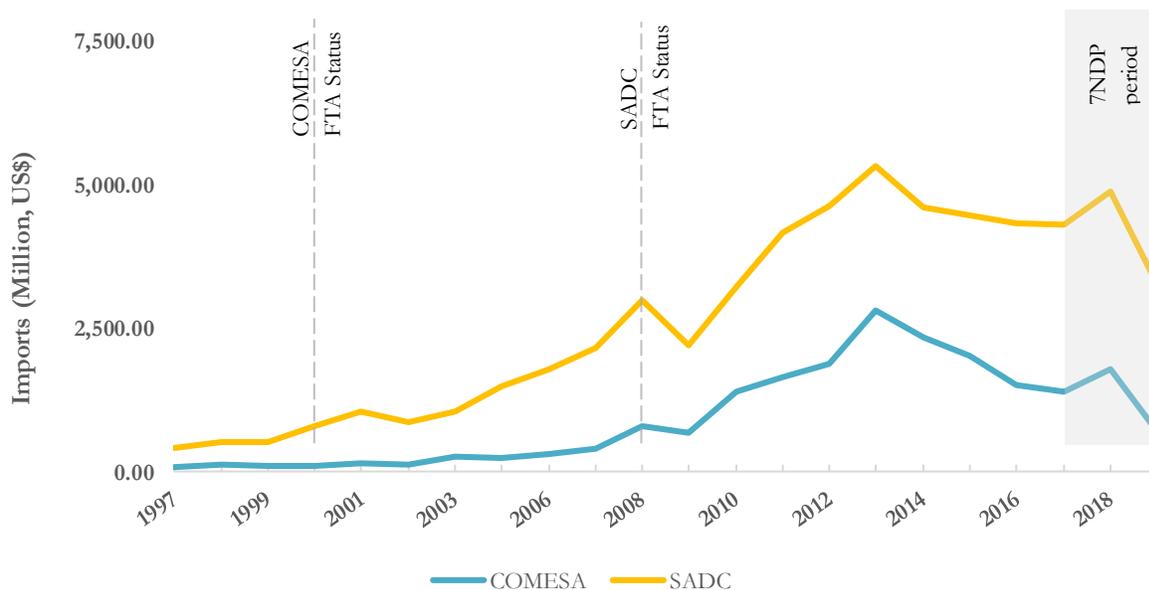
¹⁵ NBT (2018)

¹⁶ African Development Bank, Southern Africa Economic Outlook 2019. SADC became a fully-fledged FTA in 2012.

Interesting to note is that exports under SADC equally took off even before the REC became a free trade area in 2008 which suggests that the growth in Zambia’s exports to these regions was not solely as a result of the trade agreements. During the global financial crisis, exports fell but soon rebounded in 2010 and grew markedly up to the year 2013 before plummeting quite sharply. There is some indication of a recovery over the 7NDP period. The value of these exports also signal the potential forex gains for Zambia from the COMESA and SADC trade agreements averaging US\$1.1 billion and US\$1.5 billion respectively between 2017 and 2019.

Figure 4.3.2 conversely shows the change in imports following full trade liberalisation. The figure shows that the country’s imports from COMESA and SADC seem to have reacted positively to the agreements albeit imports have grown much faster than the exports. This implies a negative trade balance for Zambia’s trade with COMESA and SADC averaging US\$171 million and US\$2.6 billion respectively over the 7NDP period, which is quite undesirable. Cautiously, this should not be construed to be the net loss in trade.¹⁷ While there are not customs duties paid in free trade agreements, increased imports translate into higher consumption taxes such as VAT. Notwithstanding, although imports are generally good for consumers and producers via-a-vis facilitating access to cheaper consumer goods and inputs for production, and also increase consumption taxes, imports are also a cost to producers and the country. The negative trade balance implies Zambia does not export sufficient goods required to meet the country’s import demand from these RECs. This exerts pressure on the balance of payments thereby presenting some challenges in the macroeconomic environment that underpins the national budget.

Figure 4.3.2: Zambia’s Imports from SADC and COMESA, 1997 -2019



Source: Author’s construction from COMSTAT

¹⁷ There are consumer gains which cannot be quantified here but that are generally seen to outweigh the trade costs associated with free trade.

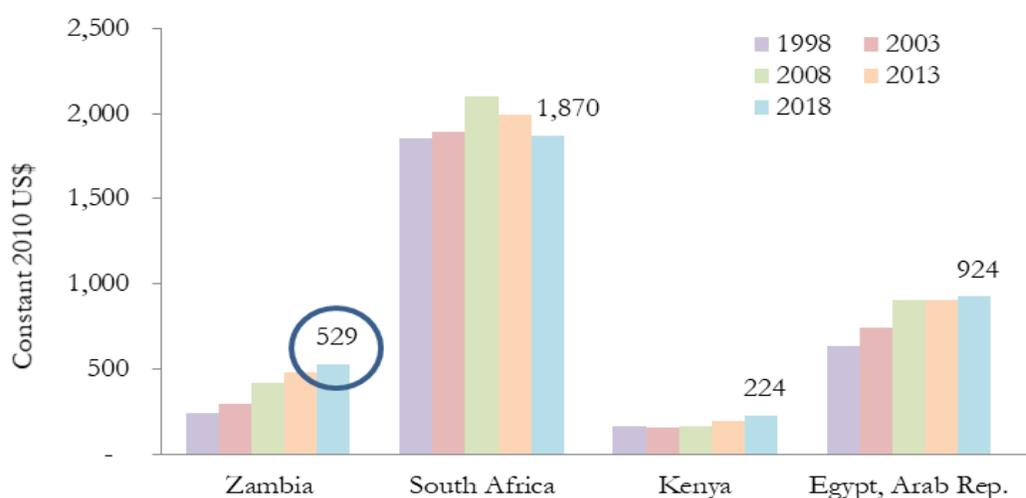
Other losses include the revenue foregone and expenditures costs associated with subscriptions and meetings earlier alluded. Overall, it is difficult to deduce the net gains and losses. A more robust methodological approach is required to estimate these net effects. This analysis should also include other economy-wide effects such as the impact on jobs and industrial output.

5. Challenges faced by Zambia industries

Generally, trade agreements are seen as an opportunity for developing countries to expand their export capacities. In addition, the trade agreements are intended to encourage firms to be more competitive internationally, to bolster economic growth, reduce unemployment, and help alleviate poverty. However, Zambia is yet to maximise the benefits from free trade. The country’s trade deficit in COMESA and SADC point to the fact that beyond the progressive elimination of tariffs, there are other factors that need to be addressed.

These factors are both internal and external. Among the major internal challenges faced by exporters in exploiting the trade agreements are: lack of production capacity, inadequate infrastructure, and poor knowledge of markets, exchange rate instability, policy inconsistencies; low productivity, inadequate skills and technology, and high transport costs. Externally, the major factors affecting the utilization of trade preferences have been difficulties in meeting sanitary and phytosanitary (SPS) measures for agro produce, technical barriers to trade (TBTs), costly rules of origin and cumbersome paperwork requirements associated with border procedures. Other reasons are fierce competition within the agreements because of different levels of development and thus productive capacities. For instance, Zambia has a weak productive capacity relative to South Africa and Egypt.

Figure 5.1: Relative Industry Value Added Per Capita



Source: Author’s construction based on World Bank World Development Indicators Data

Note: Industry includes value added in manufacturing, mining, construction, electricity, water, and gas. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs.

Figure 5.1 above illustrates Zambia's industrial capacity measured as industry value added per capita. Although South Africa's industrial capacity has been reducing since 2008, the country's industrial capacity remains the highest at US\$1,870 in 2018. Egypt equally shows relative high industrial capacity at US\$924 per capita in 2018. Notably, Zambia's industrial capacity has consistently improved over the years. However, the country's industrial capacity estimated at US\$529 in 2018 still lags behind key competitors in the region such as South Africa. Thus countries with stronger production capacity are more likely to gain more increased access in regional markets.

By and large, the main challenge is an internal challenge to do with Zambia's weak productive capacity and the lack of adequate and effective strategies that can build strong productive capacities for Zambia's increased participation in regional markets. These issues need to be addressed if trade agreements are to work for Zambia.

6. Measures to enhance strategic trade partnerships that promote the competitiveness of Zambia's industries

Zambia like other African countries has undergone trade reforms since the late 1980's with support from various international institutions such as the World Bank, the International Monetary Fund, and other bilateral donors. The reform programs were aimed at stabilizing the country's macroeconomic position which had been spiralling downwards since the 1970's.¹⁸ Zambia's trade policy over the years as outlined in several policy framework papers was aimed at pursuing an export oriented trade strategy anchored on trade liberalization so as to ensure market openness.¹⁹ The policy sought to achieve these objectives by using tariffs to promote production in the most productive sectors of the economy entirely for exports purposes. This involved designing a tariff structure that was simple, rational and development oriented i.e. that took into account the implications on revenue and costs to industry.²⁰

Specific strategies to promote export-led industrial development include the Multi-Facility Economic Zones (MFEZ) initiative. The MFEZ initiative was implemented so as to promote exports through the use of fiscal and non-fiscal incentives. Specific incentives included tax holidays for the first 5 years and relief on import duties of all imported raw materials, intermediate and capital goods. However, only firms with an initial investment of over US\$500,000 were eligible to benefit. Zambia's policy also highlighted the country's desire to increase its participation in multilateral, regional and bilateral arrangements.

More recently, the country has put in place measures to enhance strategic trade partnerships that promote the competitiveness of Zambia's industries and these have been enshrined in various policy documents. The following policies highlight these measures and they are all anchored on the Vision 2030 aimed at transforming Zambia into a prosperous middle income country by 2030:

¹⁸ UNCTAD (2006), *Zambia and the Multilateral Trading System: The Impact of WTO Agreements, Negotiations and Implementation*, United Nations: Geneva.

¹⁹ *Ibid*

²⁰ UNCTAD (2006)

- The National Trade Policy (NTP): This policy puts emphasis on the export promotion, market access and international competitiveness. The vision of the NTP is to “make Zambia a net exporter of value added goods and services through competitiveness at the domestic, regional and global level”.²¹ The NTP highlights the country’s approach to trade development by providing the private sector with a business environment suitable for them to thrive and produce internationally competitive goods and services in a reliable and sustainable manner. It also aims to selectively engage and support regional and multilateral level programmes aimed at promoting industrial sector growth and development, while taking into account commitments undertaken within the regional and multilateral context.²²
- The National Export Strategy (NEST): Sets out a strategic vision to structurally transform and diversify Zambia’s export base and enhance the export sector’s competitiveness at both regional and multilateral level, while creating opportunities for expansion of the productive base.²³ The NEST intends to achieve this by identifying challenges affecting export competitiveness and addressing these bottlenecks using a multi-pronged approach that seeks to address: (i) **border-in** issues to increase exporters’ competitiveness, capacities and competencies; (ii) **border** issues to reduce transaction costs; (iii) **border out** issues to increase market penetration, and (iv) **development** issues to increase employment and reduce the levels of poverty, tackle income-related concerns.²⁴ The policy belabours on the need to improve international competitiveness and allow the exploitation of regional and global export markets where Zambia is enjoying preferential access²⁵.
- The National Industrial Policy (NIP): It sets out guidelines that will inform the implementation of Government’s industrial development agenda, with particular reference to the growth, diversification, upgrading and competitiveness of Zambia’s manufacturing sector.²⁶ The Policy advocates for strong partnerships that promote domestic innovation through Research and Development in the development of an Industrial sector. It is expected that the NIP will stimulate and encourage value addition activities on primary commodities as a means of increasing national export earnings and creating employment opportunities and ultimately transform the Zambian economy into a diversified and competitive industrialised economy which is well integrated into the international trading system.²⁷
- National Local Content Strategy 2018 -2022: This National Local Content Strategy aims to foster business linkages in growth sectors as well as promote linkages between MSMEs and

²¹ Republic of Zambia (2018a), *National Trade Policy 2018*, Ministry of Commerce Trade and Industry, Lusaka.

²² *Ibid*

²³ Republic of Zambia (2018b), *The National Export Strategy 2018*, Ministry of Commerce Trade and Industry, Lusaka.

²⁴ Republic of Zambia (2018b)

²⁵ *Ibid*

²⁶ Republic of Zambia (2018c), *National Industrial Policy*, Ministry of Commerce Trade and Industry, Lusaka.

²⁷ Republic of Zambia (2018c)

large enterprises, both local and/or foreign.²⁸ The strategy also aims to ensure that linkages between local and foreign enterprises enhance the competitiveness of local firms and therefore spur the much needed industrialisation and diversification.

- Seventh National Development Plan (7NDP) 2017- 2021: The 7NDP aims to bring about inclusive development without leaving anyone behind and achieving more with less resources, through integration and coordination of developmental efforts.²⁹ The plan intends to achieve this by taking into account regional and global development agendas, such as the Regional Indicative Strategic Development Plan (RISDP), which is a comprehensive development and implementation framework guiding the regional integration agenda of SADC over a period of fifteen years (2005-2020), African Union Agenda 2063, Sustainable Development Goals (SDGs) and COMESA protocols.³⁰ The plan uses an approach to promote partnerships in a transformative manner.

7. Way Forward:

Trade and other partnership agreements present many opportunities to Zambia by way of enhancing market access, access to cheaper imports, productivity improvements, enhancing inflows of Foreign Direct Investment (FDI), access to improved technologies, and enabling participation in global/regional value chains. Trade agreements can also lead to increased consumption taxes. However, the country's membership to various trade agreements also presents a strain on the national budget as earlier discussed. While this paper does not comprehensively determine the net gains and losses, it does demonstrate that trade agreements directly impact the national budget vis-à-vis revenues forgone, subscription and operational costs, the fiscal deficit as well as indirectly vis-à-vis increased industry competition and the impact thereof. But these costs could be compensated for by increased industrial production, exports and employment creation.

It is imperative for Zambia to strengthen its industrial capabilities in order to maximise the benefits from the COMESA, SADC and other trade agreements and justify these initiatives. In doing so, the country will be able to compensate for the costs associated with trade agreements that have an impact on the national budget. Going forward, the country should also undertake a comprehensive cost-benefit analysis of the various trade agreements to determine which of these agreements provide the greatest benefits to the country. Thus, the country should not hasten to sign or ratify new trade agreements without first addressing its productive constraints or undertaking this cost-benefit analysis.

²⁸ Republic of Zambia (2018d), *National Local Content Strategy 2018 – 2022*, Ministry of Commerce Trade and Industry, Lusaka.

²⁹ Republic of Zambia (2017), *Seventh National Development Plan 2017-2021*, Ministry of National Development Planning, Lusaka.

³⁰ *Ibid*