



## CTPD'S MONDAY OPINION

This is a weekly column aimed at sharing CTPD's perspective and steering public debate on various issues pertaining to Trade & Investments Law, Public Finance Management, Extractives and Human Development.

TODAYS TOPIC

REFLECTIONS ON ZAMBIA'S TRADE PERFORMANCE FOR THE YEAR 2021



### INTRODUCTION

IN RECENT years and with the coming in of the new government administration, we have heard an emphasis on the need for Zambia to harmonize trade policy and create a good investment climate that will promote trade and investment in the country.

There are various reasons that have been advanced as to why positive trade performance is cardinal for the overall developmental objectives of a state. Some of which being that whether domestic or international trade, it is pivotal for economic growth and for poverty and inequality reduction.

However, beyond its direct association with growth, trade performance—by which I mean summary measures of the ability of the private sector to trade goods and services with foreign partners—is associated with a host of business-environment factors that also correlate with growth. Thus, assessing a country's trade performance is also assessing to what extent it is poised for growth.

In addition, an analysis of Zambia's trade performance in 2021 is cardinal at this point, as it will not only provide us with an understanding of what trade factors had an impact on our overall economic performance in the given year, coupled with possible challenges, but it will further provide guidance as to what economic sectors/ industries have the potential to effectively contribute to the country's developmental goals. Particularly, considering the fact that we are currently awaiting the introduction of the country's 8th national development plan that will be aimed at advancing our goal of attaining the long-term objectives of becoming a "prosperous middle-income country by 2030" as outlined in the Vision 2030.

### FACTORS AFFECTING TRADE PERFORMANCE

According to the central statistics office, in 2020 and 2021 Zambia recorded a trade surplus, meaning its exports were higher than its imports. For the year 2021, Zambia's cumulative total trade was up by 48.3% most likely caused by the trade surplus registered throughout the year. In order to appreciate Zambia's 2021 trade performance, it is necessary for us to understand some key factors that affect a country's trade performance. Factors such as;

#### Foreign market access

Access to foreign markets is a critical determinant of export. Here, the term "foreign market access" is seen as representing the foreign market potential of a country. In that sense, it is a broader notion than the term "market access" as used in everyday trade discussions. It relates directly to the characteristics of the trading partner countries, such as the size of their market and transport facilities, and inversely to their own internal transport costs. It also depends positively on the size of the export basket and the number of differentiated items

and their prices, which in turn are affected by market entry conditions. Transborder costs, which also include tariff and non-tariff barriers, have the expected negative impact on foreign market access. To put this in context, factors such as the high cost of production in Zambia not only have a bearing on the sustainable livelihood of the poor but also make it harder for our goods to compete in other markets due to the high price of our commodities, that often results in poor export performance. Notwithstanding, Zambia's trade surplus was highly attributed to Copper exports that amounted to 60 percent of the country's total exports and 70 percent of Africa's production.

In addition, policy changes also affect the trade performance of a country. For example, in the 2022 national budget it was announced by the Honourable Minister of Finance that there will be a change to the minerals tax regime in an effort to maximise both revenue and foreign investment, making this the 11th change in 18 years. This instability has an impact on the country's trade performance.

#### Regional economic integration and cooperation

Another factor to consider is Zambia's role in regional economic cooperation and integration.

Regional economic and trade arrangements, if effectively used can provide a supportive environment for improving export performance. On 15th December 2020 Zambia ratified the Tripartite Free Trade Area (TFTA), making it the 9th country to do so. To enter into force, the TFTA requires a minimum of fourteen ratifications by member states, and once operational will have the effect of providing higher levels of regional integration and ultimately free movement of goods and services in the wider Tripartite region covering EAC, COMESA and SADC. This will help in dealing with the poor coordination across the different trading blocs that has resulted in the low level of investment. Further on 4th February 2021, Zambia ratified the Africa Continental Free Trade Area (AfCFTA) Agreement. However, despite Zambia being a party to many regional trade agreements (RTAs) there are SUPPLY-SIDE FACTORS that must be addressed in order to lift its trade performance.

Look out for next week's article as we analyse the statistical factors summarising Zambia's 2021 trade performance.

#### About the author

**Tawila Anamela is a researcher for Trade and Development at the Centre for Trade Policy and Development (CTPD) and a lecturer of law with ZCAS University. He holds a Masters of Law in International Trade law from the International Training Centre of the International Labour Organisation (ITCILO) and The United Nation (UN), and is currently Pursuing a Masters in Business Administration (MBA) in International Business from the University of Greenwich in the UK.**

EXECUTIVE DIRECTOR  
P.O. Box 50882, Lusaka, Zambia  
Plot 3823, Manda Hill Road,  
Olympia Park  
Tel: +260 211 264409  
Email: info@ctpd.org.zm



Centre for Trade Policy & Development



www.ctpd.org.zm



+260975876038

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