# THE IMPLICATIONS OF ZAMBIA'S ENTRY INTO

# THE

# COMESA UNION

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BY

CHIKUTA LANCO MOONO

December 2005

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# THE UNIVERSITY OF ZAMBIA

## SCHOOL OF LAW

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06. 01. 06
Date

Supervisor
(Mr. G.M. Kanja)
LL.B (UNZA),LLM

# THE IMPLICATIONS OF ZAMBIA'S ENTRY INTO THE COMESA UNION

BY

CHIKUTA LANCO MOONO (90030389)

Being a dissertation submitted to the University of Zambia, faculty of law, in partial fulfilment of the requirement for the award of the Bachelor of Laws (LL.B) degree.

The Faculty of Law
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P.O. Box 32379
Lusaka.

December 2005

## DECLARATION

I declare that the work in this obligatory essay represents the writer's views on the subject, having addressed his mind to the available information and acknowledging the sources of such information used, pursuant to which such views ensued.

04/01/06

Date

L.M. Chikuta (Student)

## DEDICATION

This paper is dedicated to my parents, my siblings and all the lovers of my happiness.

To my mother Elina Nyungwa Sikani (Chikuta), who lovingly nurtured me into a responsible person; your love, endurance, patience, encouragement, support and trust in me have been my working materials through out my life. If God gave me chance to choose who my mama should be, I would choose you to be my mother again. Bina Royi, life would be different without you. Your prayers see me through. And to my late father Lazarous Chikuta Munsaka; who, with love made me the man I have grown into; your support and pride in my success are the building blocks in my desire to want to do more. Your desire for us not be divided as your children, I have kept close to my heart. This fire of love - I hope to transmit to the family God will bless me with – for these are, now my motivation to want to do more.

To all my siblings, and because we are blessed in number, let me simply say, your love I have loved. To Hamasuku (Sukuna), Jaine (Jeni Mucembele – small sister), Roidah (Royi) and others who have passed on, we all love and miss you. To the rest of you still surviving, I know you know that I always love and appreciate your support.

To all my friends too numerous to mention, thank you for the support.

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First and foremost, my supervisor, Mr. G.M. Kanja, for his assistance, support and patience throughout my work. He exhibited a great deal of flexibility, more especially owing to the fact that information from the Central Statistical Office (CSO) (which was the most relevant for the chapters three to chapter five and form the gist of the essay) delayed to be availed. Nothing went unnoticed. Thanks a lot.

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# CONTENTS

## INTRODUCTION

In International Trade, the exchange of goods and services between nations, whether in their state as finished products, intermediate goods used in producing other goods, or raw materials such as minerals, agricultural products and other such commodities, nations are enabled to specialise in those goods they can produce cheaply and efficiently and sell those that are surplus to their requirements.

It would be right then to conclude that trade also enables a country to consume more than it would be able to produce if it only depends on its own resources. Trade encourages economic development by increasing the size of the market to which products can be sold. It has always been the major force behind the economic relations among nations. In fact, trade would be said to be the measure of national strength.[1]

A state that does not engage in trade would be equated to a patient, who, being void of good health, looks forward to being healed without taking medication. Trade works as the power house for development. Since time immemorial (16th & 17th century), it is an admitted fact that the objective of an empire or country has been to acquire as much wealth as possible in return for as little expense as possible.[2]

As early as in those times, international trade began to assume its present form with the establishment of these nations or states. Notwithstanding the nature of time in history, Heads of States had already discovered that by prompting foreign trade they could mutually increase the

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[1] Microsoft ® Encarta ® Encyclopedia 2002 © 1993-2001 Microsoft Corporation
[2] Ibid

States had already discovered that by prompting foreign trade they could mutually increase the wealth, and thus the power, of their nations. According to Smith's comparative advantage theory which Ricardo modified, a country that trades internationally should specialise in producing only those goods in which it has an absolute advantage, that is, those goods it can produce more cheaply than can its trading partners. Such a country can then export a portion of those goods and, in turn, import goods that its trading partners produce more cheaply. If each country specialises in producing the goods in which it has a comparative advantage, more nations would increase their wealth as markets for such goods would be readily available in those countries that do not have this advantage.[3]

International trade may be conducted at different levels that include Regional Trade Arrangements (RTAs) or Preferential Areas (PTAs). For example, in North America, we find the North America Free Trade Area (NAFTA) while Latin America has the Common Market of the South (MERCOUSUR). Africa, similarly, has not been left out since the West has the Economic Community for West African States (ECOWAS), the south, the Southern Africa Customs Union (SACU) comprising South Africa, Namibia and the two banana republics of Lesotho and Swaziland while there also exists the Common Market for Eastern and Southern Africa (COMESA) which represents the largest trading bloc in the African continent. As a matter of fact, nearly all the members of the newly formed World Trade Organisation in 1995 belong to some RTA of some kind.[4]

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[3] Ibid

[4] From GATT to WTO: The Multilateral Trading System in The New Millennium, Kluwer Law International 2000.

COMESA is transforming itself towards a customs union. It is a settled fact that this transformation of COMESA into a customs union entails a lot of things to happen differently from the way trade has been conducted under the current COMESA (FTA) regime. Most of the changes, if not all, carry alongside, associate economic, social and political implications on member countries. It is the desire of this paper to restrict itself to what economic implications such a move would have on Zambia as regards regional trade upon entry. The paper will then make recommendations as to what would be the way forward considering the nature of economic activity in Zambia.

## CHAPTER ONE

### 1.0 WHAT IS COMESA

The Common Market for Eastern and Southern Africa (COMESA) is a product of the treaty that was signed in December 1994. This is the treaty that established COMESA, as an organisation. COMESA came in to replace the then Preferential Trade Area for Eastern and Southern African States (PTA) that had been operational since July 1984.[1]

As a matter of fact, COMESA was founded in 1993 as a successor to the Preferential Trade Area for Eastern and Southern Africa (PTA), which was established in 1981.To be precise, COMESA formally succeeded the PTA on the 8th of December 1994 with the aim of strengthening the process of regional economic integration, which had been initiated under the PTA, in order to help member states achieve sustainable economic growth.[2] The 5th November 1993 Kampala Treaty, which a year later was, ratified in Lilongwe on the 8th of December 1994 established COMESA as an organisation of free independent sovereign states that have agreed to cooperate in developing their natural and human resources for the good of their people.[3]

COMESA's main focus is the formation of a large economic and trading front that is capable of overcoming some of the barriers that are faced by the individual states. It was hoped that by the year 2000, all internal trade tariffs and barriers would be removed and that four (4) years after its entry, COMESA would have introduced a common external tariff structure to deal with all third party trade and would have considerably simplified all procedures. It has a wide-ranging series of

[1] http://www.sis.gov.eg/public/africanmag/issue01/html/enfront.htm
[2] http://www.info.gov.za/index.html
[3] http://www.itcilo.it/actrav/actrav-english/telearn/global/ilo/blokit/comesa.htm

other objectives which necessarily include in its priorities the promotion of peace and security in the region[4] since this is also very important in the carrying out of trade.

## 1.1 THE HISTORY OF COMESA

The United Nations Economic Commission for Africa (UNECA) and the Organisation of African Unity (OAU) between them share the credit for the launching and enhancing of the regional co-operation in Africa by setting up several intergovernmental organisations (IGOs), institutions such as the African Development Bank (AfDB) and such other associate mechanisms with the main aim (purpose) of ultimately achieving African unity and economic integration.[5]

Thus during and around the early 1960s, while the independence struggle was ragging for some of the COMESA member states, economic problems to be faced by independent Africa were discussed in Accra, Ghana at the second conferences of independent African states. Pursuant to the conference deliberations, consensus was reached that the smallness and fragmentation of the post-colonial African national markets would constitute a major obstacle to the diversification of economic activity, away from a concentration on production of a narrow range of primary exports, to the creation of modern and internationally competitive enterprises, which would satisfy domestic needs and meet export requirements. It was, therefore, agreed that African countries which had gained political independence, should promote economic co-operation among themselves.[6]

Two options were advocated for the implementation of the integration strategy in Africa. These are:

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[4] Ibid
[5] The Free Trade Area of The Common Market for Eastern and Southern Africa, 2001, p31
[6] Op cit

a) the Pan-African, all-embracing regional approach, which envisaged the immediate creation of a regional continental economic arrangement; and

b) the geographically narrower approach that would have its root at the sub-regional levels and build on sub-regional co-operation arrangements.

The majority of the countries favoured the narrower sub-regional approach. Based on this, the United Nations Economic Commission for Africa (UNECA) proposed the division of the continent into four sub-regions: Eastern and Southern, Central, West and North Africa. The proposals of the commission were adopted by the Heads of state and Government OAU conference. Therefore, all independent African states were enjoined to take, during the 1980s, all necessary steps to strengthen existing sub-regional economic co-operative groupings and, as may be necessary, establish new ones so as to cover the whole continent, sub-region by sub-region and promote co-ordination and harmonisation among the groupings for the gradual establishment of an African Economic Community by the end of the century.[7]

The origins of COMESA can thus be traced as far back as the mid-sixties. Before the Lagos plan of action and the Final Act of Lagos were adopted, the countries of Eastern and Southern Africa had already initiated the process towards creating an Eastern and Southern African co-operation arrangement.[8] In fact, in the early 1960's, the Eastern and Southern African Sub-region had already begun to make commendable initiatives towards the formation of a sub-regional common market.[9]

[7] Ibid
[8] Ibid
[9] The Free Trade of The Common Market for Eastern and Southern Africa 2001, p31

In 1965, Lusaka became the focal point having been the venue for the initial UNECA convened ministerial meeting of the then politically independent states of Eastern and Southern Africa to consider proposals for the establishment of a mechanism for the promotion of the sub-regional economic integration.[10]

Pursuant to the Lusaka UNECA Ministerial meeting that was tasked to seriously consider proposals for the establishment of a mechanism for an in-depth promotion of sub-regional cooperation and economic integration, an interim Council of Ministers was set up to negotiate the draft of a draft treaty.[11] The Council, in order to meet this objective, was to be assisted by an interim Economic Committee of officials.[12]

The May 1966 Addis Ababa first meeting of the interim Council of Ministers adopted and had signed, the terms of association to govern the interim arrangements before the signing of the formal treaty. The signatories included Burundi, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Somalia, Tanzania, and Zambia. In 1967, a meeting of the Interim Economic Committee of officials recommended an interim programme of action for implementation that would be integrated in the treaty when it was to be approved. Alongside these developments, two organisations were established, the Pan-African Freedom Movement in East, Central, and Southern Africa (PAFMECSA), and the conference of East and Central African states. Although these were mainly political in their nature, their membership extended beyond that of the sub-region and included also in their activities, programmes on economic co-operation.

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[10] Op cit
[11] Op cit
[12] Op cit

In the 1970's, it became clear that the need for sub-regional economic arrangements became more urgent resulting from the following three major developments:-

a) The collapse of federations in Eastern and Central Africa terribly reduced political co-operation amongst states of the region and this needed to be addressed.

b) The destabilization of the economies of the Southern Africa States by apartheid South Africa made it necessary for these nations to create, as a matter of urgency, a sub-regional organisation which would be an economic counterweight to South Africa, and lastly,

c) Notwithstanding the failure of earlier efforts to establish a sub-regional economic Co-operation arrangement, the States of Eastern and Southern Africa recognised that there was no alternative to reducing their traditional economic dependence on the industrialised world which realisation entailed adopting self-sustaining development measures in all sectors.[13]

Resulting from the first Extra-ordinary meeting of Ministers of Trade and Planning who met in Lusaka, a recommendation to create a sub-regional economic community, beginning with a sub-regional trade area that would gradually be upgraded over a period of ten years to a common market until the community had been established. Pursuant to this recommendation, the meeting adopted the "Lusaka Declaration Intent and Commitment to the Establishment of a Preferential Trade Area for the Eastern and Southern Africa" and created an Inter-governmental Negotiating Team on the treaty for the establishment of the PTA. Lusaka hosted the meeting of Heads of States and Government on the 21st December 1981 at which the Treaty establishing the PTA was signed.[14]

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[13] Ibid.
[14] Ibid

The PTA Treaty envisaged its transformation into a Common Market and, therefore the Treaty establishing COMESA was signed on the 5th November 1993 in Kampala, Uganda and was ratified a year later in Lilongwe, Malawi on the 8th of December 1994.

Having shown this background then, it is clear that "the process of economic integration in Eastern and Southern Africa has, therefore, not been episodic, but rather systematic, following a logical progression on a step by step basis. Firstly, a Preferential Trade Area was established and operated for over a decade, which was then transformed into a Common Market. The third phase will involve the eventual establishment of an Economic Community".[15]

### 1.2 The Establishment of COMESA

As already stated, COMESA was established by way of a treaty that was signed on 5th November 1993 in Kampala, Uganda and later ratified on the 8th of December 1994.

COMESA replaced the former Preferential Trade Area (PTA) that had been in existence from the early days of 1981. It was established as organisation of free independent sovereign states which agreed to co-operate in developing their natural resources for the good of their own people.[16]

Currently, the membership to COMESA is composed of the following sovereign countries: Angola, Burundi, Comoros, Democratic Republic of Congo (DRC), Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania,

[15] Ibid
[16] http://www.itcilo.it/actrav/actrav-english/telearn/global/ilo/blokit/comesa.htm

Uganda, Zambia and Zimbabwe.[17] Membership to this organisation is open to any such countries belonging to the region and has not yet joined. The paper has in mind countries like South Africa, Botswana and Lesotho.

### 1.3 The Functions of COMESA

COMESA as an Organisation is intended to achieve self-sustained development through co-operation in all areas of economic activity, namely: trade promotion, monetary and financial cooperation, development of agriculture, investment, improvement of transport and communications.

The ultimate objective of the Organisation is to bring about a sub regional Common Market and eventually an economic community. The member countries in the Eastern and Southern Africa share the common view that COMESA, as a truly African Organisation, was established to meet this challenge. It has been designed in such a way as to be an instrument for attaining sustainable growth and development based on the exploitation of resources of the region through collaboration in all fields of economic activity. COMESA also facilitates the adoption of common macro-economic policies and programmes to facilitate increased productivity in industry, manufacturing and agro-industries to encourage competitiveness of indigenous products not only in COMESA but also on the international market.[18]

[17] http://www.info.gov.za/index.html
[18] http://www.sis.gov.eg/public/africanmag/issue01/html/enfront.htm

It is the main focus of COMESA to form a large economic and trading unit that is capable of overcoming some of the trade barriers faced by individual states. For instance, it was the ambition of COMESA to ensure all internal trade tariffs and barriers were removed by the year 2000.

In general then, it would be said that functions of COMESA can be construed from its aims, objectives and agenda. It is then the function of COMESA to work towards the fulfillment of these aims, objectives and agenda.[19]

The aims and objectives of COMESA will be discussed in chapter two of this obligatory essay.

## 1.4 The Agenda of COMESA

It is the COMESA agenda to deepen and broaden the integration process among member states through the adoption of more comprehensive trade liberation measures such as the total elimination of tariff and non-tariff barriers to trade and elimination of customs duties; through the free movement of capital, labour, goods and the right of establishment; by promoting standardised technical standardising taxation rates (including value added tax and excise duties), and conditions regarding industrial cooperation, particularly on company laws, intellectual property rights and investment laws; through the promotion of a single currency and the establishment of a monetary union and through the adoption of a Common External Tariff (CET). By agreeing to the aforesaid, member states have in fact agreed on the need to create and maintain the following:

(a) A full free trade area guaranteeing the free movement of goods and services produced within COMESA and the removal of all tariffs and non-tariff barriers.

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[19] http://www.itcilo.it/actrav/actrav-english/telearn/global/ilo/blokit/comesa.htm

(b) A customs union under which goods and services imported from non-COMESA countries will attract an agreed single tariff by all COMESA states;

(c) Free movement of capital and investment supported by the adoption of the common investment practices in order to create a more favourable investment climate for the entire COMESA region:

(d) A gradual establishment of a payments union based on the COMESA Clearing House and the eventual establishment of a common monetary union with a common currency; and

(e) The adoption of a common *visa* arrangement, including the right of establishment leading eventually to free movement of bonafide persons.[20]

### 1.5 Zambia's Membership to COMESA

Zambia's participation in world trade agreements may be discussed under three heads, namely;

i) multilateral agreements

ii) Regional agreements

iii) Bilateral and Non-Reciprocal Agreements.

Most important to this paper are the regional agreements Zambia has signed. These regional arrangements are comprised of trade protocols signed under the Common Market for East and Southern Africa (COMESA) and the Southern Africa Development Community (SADC).[21] The COMESA trade involvement by Zambia is what is more important to this paper.

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[20] Ibid

[21] What should Parliamentarians Know about Zambia's Trade Arrangements? Ministry of Commerce, Trade and Industry, March 2004,p9

In short, Zambia is a signatory to COMESA's protocols other than those of SADC. Other than Zambia, eight other countries participate in both regional groupings although of these, Namibia and Seychelles have stated their desire to withdraw from COMESA (Namibia has in fact done so). The six belonging to both groupings include Angola, DRC, Malawi, Mauritius, Swaziland and Zimbabwe.[22]

Zambia is one of the few countries that have participated in COMESA (FTA) activities since the Launch of the Free Trade Area on 1 November 2000. The creation of the COMESA FTA in 2000 in fact enhanced Zambia's market in the region. Such benefits will be discussed later. The other eight participating countries include Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan and Zimbabwe.[23]

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[22] Ibid, p12
[23] Ibid

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[22] Ibid, p12
[23] Ibid

## CHAPTER TWO

### 2.0 The Basis for Regional Economic Integration

The Most Favourable Nation (MFN)[24] and the National Treatment[25] principles under GATT 1947 prohibit discrimination in treatment of products from GATT/WTO member countries. The two principles discourage the idea of creating favourites. By the MFN principle, it is required that any preferential treatment afforded to products of one member country (of GATT/WTO), must there then (automatically) be extended to the other member countries. For example, if country A (which is a member of GATT/WTO) offers preferential treatment to products of country B coming into its markets, it must immediately afford the same treatment to similar products coming from countries C, D and E who are also members of GTTA/WTO.

There is, however, an exception to the MFN clause which provides for the establishment of Regional Trade Arrangements (RTA). In fact, the legal basis for RTA's is found in Article XXIV[26] which is also referred to as the exceptional clause to the MFN obligation of the GATT/WTO. In this way, while the MFN obligation imposes on member states to apply a system of trade which is not discriminatory in nature, Article XXIV permits the GATT/WTO member states that belong to some RTA to afford preferential treatment to products from within the region (RTA) without necessarily extending the same treatment to similar products of other GATT/WTO members not party to such an RTA. Dubbed as a standard clause in all commercial treaties by the GTTA draftsmen, the inclusion of Article XXIV in the General Agreement was not without some opposition, the greatest of which was from the United States of America. The main reason for this concern was how to

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[24].Article 1 of the GATT 1947 (as amended).
[25].Ibid, Article X1
[26] .Ibid.

define such an exception without having to open the door to the introduction of all preferential systems under the guise of a customs union or free trade area. Not withstanding the foregoing concerns, Article XXIV was nonetheless incorporated on the understanding that such arrangements did not after all cause any disadvantage to the outside countries in comparison with their trade before they were effected.[27]

Thus, Article XXIV(5) provides that the provisions of the General Agreement are not to prevent as between contracting parties (now referred to as members of WTO) , the formation of a customs union, a free trade area, or an interim agreement necessary for the formation of either of the two. The types of regional agreements are, however, only representative and not an exhaustive list of RTAs that exist. It is, therefore, important to note that regional economic integration is "international economic integration on a more localised normally geographic basis."[28] Therefore, at the risk of over-simplification, "regional economic integration should be understood as a scenario where certain countries in a given region come together and integrate their economies to achieve a desired goal".[29]

Most notable among the trade blocs is the European Community which has reached a high level of integration. First created in 1957 under the treaty of Rome as the European Economic Community (EEC) and signed by only six countries at the time; "it's essential aim was to establish by three stages over a transitional 12-15 year period, a common market in which all internal tariffs, quota

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[27] .Jackson J. H; International **Economic Relations**; 1995, pp .469 and 470.
[28] . Folson R. H; **Corporate Competition Law in European Communities**: Lexington Books, 1978, p1.
[29] . Hatongo D.C. ; The COMESA Free Trade Area : Zambia's chance to Benefit From The World Organisation, An Evaluation ;Obligatory Essay, 2001, p11.

restrictions, etc were to be eliminated, a uniform external tariff created and the promotion of free movement of labour and capital attained."[30]

Suffice to say that, while the reasons for economic integration may vary, the main one appears to be the improvement of trade among member states in a given economic bloc through the removal of trade barriers and ensuring enhancement of rapid economic growth (development). It is against such a background that economic blocs like COMESA and many others were formed. COMESA like any other bloc is established based on specific aims and obligations. This chapter will further look into the COMESA FTA, its objectives and the COMESA UNION being established.

## 2.1 The COMESA FTA

In order to be able to understand the operations and nature of the COMESA Free Trade Area, it will be necessary to discuss the basic principles or characteristics of a Free Trade Area (FTA).

The defining characteristic of a Free Trade Area is that the member states agree to work towards a gradual elimination of protective customs duties and qualitative restrictions on each others products in conformity with any such agreed rules of origin.

Talking about the rules of origin; these are a set of definite criteria that distinguish between goods produced from within a free trade area and are entitled to duty-free or preferential treatment with respect to customs duty and /or other charges of equivalent duty and of those that are considered to have been produced from outside the region and pay full-national duties when traded.[31]

[30]. Bowett, D. W, The Law of International Institutions: Universal Law Company, Delhi, 1998, p 2000.
[31]. COMESA FTA Questions and Answers, February 2001, pp 3.

Member states of a FTA have the autonomy in commercial or tariff policy and reserve the right each, to fix its own external tariff structure as against any other non member states. Clearly, the degree of sovereignty surrendered is minimised under these circumstances.[32]

The COMESA intended to establish a Free Trade Area (FTA) by the year 2000 and all countries were supposed to have reduced tariffs by 80% by October of 1996. However, not withstanding this expectation, only five countries (Comoros, Eritrea, Sudan, Uganda and Zimbabwe) had by the year 2000 reached this level.[33]

It is the position of this paper that COMESA is a Free Trade Area. In fact, as at 2001, COMESA had already taken an extra step forward than its predecessor, the Preferential Trade Area (PTA) towards the entire elimination of tariffs on goods produced from within the region.[34]

As already stated, the desire of COMESA was to achieve a Free Trade Area by the year 2000. Problems that some countries face were identified to include; that of applying tariff reduction rates to the already low national rates, which problem leads to inequitable revenue loses and making exports to countries with higher national rates less competitive. The other problem with the FTA deals the application of the tariff reduction programme at different stages by different countries. Although these problems were seen to be temporally and could be dealt with through the principle of reciprocity, it was felt the COMESA Secretariat needs to continue to assess the revenue implications the applications of the tariff reduction programme is having on individual COMESA

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[32] . D. W. Bowett, pp. 197.
[33] . http://www.sis.gov.eg/public/africanmag/issue01/html/enfront.htm
[34] .The Free Trade Area of The Common Market for Eastern and Southern Africa, 2001, p 10.

countries. The Secretariat was urged, where possible, to suggest ways in which the reduced revenues from the tariff rates can be compensated for.[35] One of the principle mechanisms through which COMESA member states are to fulfill the provisions of the COMESA treaty in order to simplify and harmonise their customs procedures and documents, to standardise the collection of reliable accurate and up-to-date statistics, to facilitate trade in the region is through the implementations of the Automated System for Customs Data and Management (ASYCUDA) and Euro Trace. [36]

ASYCUDA's main objective is to help the business community clear goods faster from customs areas, make available up-to-date and accurate international trade statistics, modernise customs administrations and through the improved efficiencies, increase revenues of the COMESA member states. So far, 13 COMESA member states are implementing ASYCUDA and these include Burundi, Comoros, DR Congo, Madagascar, Mauritius, Rwanda, Sudan and Zimbabwe. As at the time the source of this information was posted on the internet, requests for the system had been received from Malawi, Swaziland and Zambia while projects were underway in Eritrea, Ethiopia, Namibia, Tanzania and Uganda[37]. However, Zambia is now ASYCUDA compliant. In fact , according to Mr. Manyika[38] , information concerning international trade in Zambia is much more reliable from the year 2002 onward when a better data capturing system was introduced (ASYCUDA) .

35 . http://www. Itcilo.it/actrav/actracv-english/telearn/global/ilo/blokit/comesa.htm#A Free Trade Area.
36 .Ibid.
37 .Ibid.
38. Manyika Dene , External Trade Department , Central Statistics Office , 2005.

Related to establishment of the COMESA Free Trade, it had become the pre-occupation of COMESA to ensure the elimination Non-Tariff Barriers (NTB's); the simplification of COMESA rules of origin and Value Added criteria.

Steady progress has, since, "been made in the elimination of non-tariff barriers (NTB's) such as in liberalising import licensing, removal of foreign exchange restrictions and taxes on foreign exchange, removal of import and export quotas, removal of road blocks, easing of customs formalities, extending times border posts are open ..."[39] The author was quick to observe, however, that there are still a number of Improvements that needed to made in order to make intra- regional trade easier. These include among others; the improvement of the transport and communication structures, ease visa requirements, improved information and access to information on trade opportunities, the need to further reduce the customs and bureaucratic procedures at the border crossings. However, suffice to say that some of these constraints like the need to improve the transport and communications infrastructure require huge investment and "will only be achieved over a medium to long term time scale and is an area in which donor support and foreign private sector investment will be needed for some time to come."[40]

## 2.2 The COMESA Objectives

The COMESA objectives are to be found in the treaty establishing COMESA. This treaty "binds together free independent sovereign states which have agreed to co-operate in exploiting their

[39] . Op Cit.
[40] . Ibid.

natural and human resources for the common good of all their peoples." In order to attain this goal, COMESA recognises that peace, security and stability are basic factors in providing investment, development, trade and regional economic integration. Experience has shown that the ability by member countries to develop their individual economies together with their capacity to participate and take full advantage of the regional integration arrangement under COMESA cannot be achieved where civil strifes, political instabilities and cross-border disputes abide. In short, it is an ordained fact that where there is no peace, security and stability, you cannot talk of any satisfactory level of investment even by the local entrepreneurs. [41]

For this reason , the COMESA member states , in pursuit to the aims and objectives as found in the COMESA Treaty for the Establishment of the African Economic Community signed at Abuja , Nigeria on 3rd June ,1991, purposefully , agreed to adhere to the following principles:-

(a) Equality and inter-dependence of the member states ;

(b) Solidarity and collective self-reliance among the member states;

(c) Inter-state co-operation, harmonisation of policies and integration of programmes among the member states;

(d) non-aggression between the member states;

(e) recognition, promotion and protection of human and people's rights in accordance with the provisions of the African Charter on Human and People's Rights;

(f) accountability, economic justice and popular participation in development;

(g) the recognition and observance of the rule of law.

(h) the promotion and the sustenance of the democratic system of governance in each member state;

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[41] .Ibid.

(i) the maintenance of regional peace and stability through the promotion and strengthening of good neighbourliness; and

(j) the peaceful settlement of disputes among the member states , the active co-operation between neighbouring countries and the promotion of a peaceful environment as a pre-requisite for their economic development.[42]

It has become a COMESA agenda to ensure that there is a deepened and broadened integration process among member states through the adoption of more comprehensive trade liberalisation measures such as the elimination of tariff and non-tariff barriers and the elimination of customs duties; through the free movement of capital, labour, goods and the right to establishment; by promoting standardised technical specifications, standardisation and quality control; through the elimination of controls on the movement of goods and individuals . The agenda also requires the standadising of taxation rates (including Value Added Tax and excise duties), and conditions pertaining to industrial co-operation particularly on establishment of a monetary Union; and through the adoption of a Common External Tariff (CET).[43]

All member states then, by agreeing to above, agree on the need to create and maintain the following:[44]

(a) a full free trade area are guaranteeing the free movement of goods and services produced within COMESA and removal of all tariffs and non-tariff barriers ;

(b) a customs union under which goods and services imported from non- COMESA member countries will attract an agreed single tariff by all COMESA states ;

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[42] .Ibid.
[43] .Ibid.
[44] Ibid

(c) free movement of capital and investment support by the adoption of common investment practices so as to create a more favourable climate for the entire COMESA region ;

(d) a gradual establishment of a payments union based on the COMESA clearing house and the eventual establishment of a common monetary union with a common currency ;

(e) the adoption of a common visa arrangement , including the right of establishment leading, eventually, to the free movement of bonafide persons .

## 2.3 The COMESA Union

COMESA is now transforming itself from a Free Trade Area (FTA) into a customs union. Clearly, a customs union (CU) is a step further from the FTA in that "it is reached when all restrictions are removed in the trade between the parties and a common tariff is established against third states"[45]. In order to attain this stage, two things must necessarily happen and these are:[46]

(i) Trade barriers such as tariffs, quotas and other non-tariff barriers must be done away with amongst member states.

(ii) There has to be an adoption of a common external tariff and correspondingly a common commercial or common customs regulations towards the outside world or non-member states.

The difference between a customs union and a free trade area is that the concept of a common external tariff and customs regulations are not found in a FTA. Members of the customs union, in addition to liberalising trade among themselves, maintain common trade barriers as against goods

[45]. Okigbo PNC , Africa and the Common Market ; Longmans Green and Co. Ltd , London ,1967 , p 20.
[46] . Hansungule M. K. , Ph.D Dissertation ,1992 , p 17.

coming from non-member countries. These goods, once they have entered the customs area do enjoy free movement. The customs inspections which obtain in a FTA at borders of member states are completely eliminated. Tariff revenues are then shared among member states or allocated according to the destination of the goods. The main problem of such a status call is a question of how to find a mechanism for sharing of customs revenue among member states.[47]

As stated already, COMESA is transforming itself into a customs union and such a move has not gone unnoticed. Commenting on the move towards the COMESA union, the COMESA Secretary General, Mr. Erastus Mwencha, said "I would be happy if we achieved (the COMESA Union) yesterday" when he was addressing the reporters in Nairobi early this year (2005). He strongly believes that COMESA is going to achieve a full customs union within the next five years from when he made the above address. According to him, although COMESA already had a number of countries with which to start the customs union, it is the desire of COMESA to bring as many members as possible.[48]

Amidst this enthusiasm to kick-start the COMESA Union, progress in creating the union has greatly been hindered by a reluctance among COMESA member countries to cut customs tariffs which contribute between 30 percent and 40 percent of their national revenues.[49]

Despite the fact that member countries are divided on this issue, people like the Director of Swaziland Chamber of Trade and Commerce, Zodwa Mabuza are quick to observe that "the customs union will facilitate the free movement of goods within the region. It will build on the benfits

[47] .Hatoongo D.C. , The COMESA Free Trade Area ; 2001 , p16.
[48] http://www.namibia.com.na/HTML/lead.html
[49] Ibid

of the free trade area including the removal of tariffs and quotas on goods produced in the region". She says the customs union will bring bigger markets for local producers and will enable producers source cheaper raw materials from the region.

Not withstanding that many COMESA member countries have expressed concern over the reduced government revenue owing to a decrease in tariffs on imports from within the region, Mabuza feels that some countries of the Southern Africa Development Community had achieved higher incomes from duties because Common External Tariff (CET) had actually raised duties of certain products in these countries.[50]

Kenya[51], a nation whose industry in COMESA is comparatively competitive is in a hurry to join the customs union and warns that to operate efficiently, all member states need to join the customs union and that the fears that some member states with strong economic base will dominate need to end.

Pursuant to the foregoing (Joseph Bii's) thought process, I find more prudent the Mabuza warning that COMESA producers should strive to be more efficient and productive, as free internal trade will expose them to fierce competition from producers in the region who are more efficient than them.

It is against such an understanding that some struggling economies like Sudan and others, feel that since tariffs imposed on imported goods are important revenue sources for many COMESA

50 . http://www.namibia.com.na/HTML/lead.html.
51 .Ibid. – by Joseph Bii of the Export Processing Zones Authority in Kenya .

countries, it is natural for them to worry that their revenues will reduce sharply following the setting up of the customs union.[52]

The next Chapter (Three) will look at the trade pattern of Zambia with regard to COMESA. This will be useful in helping to determine the impact (on Zambian trade) the COMESA FTA has made. If positive, then the entry in the COMESA Union will be helpful. If, on the other hand, the impact is not much, then Zambia may have to determine which way forward would be best.

[52] . Ibid.

# CHAPTER THREE

## 3.0 Zambia's Trade Pattern as Regards Imports and Exports within and outside the COMESA FTA

International trade is important for the economic survival of any country. A country which is unable to produce some product at all or at least cheaply may depend on international trade to access such products. In this way, nations are enabled to specialise in those goods that they can produce cheaply and efficiently and sell those that are surplus to their requirements. Owing to this, countries are enabled to consume more than they would produce if they only depend on their own resources. Trade encourages economic development by increasing the size of the market to which products can be sold. Trade has always been seen as the major force behind the economic relations among different nations.[53]

Zambia is no exception to this requirement to trade. In fact, quite a substantial amount of the national revenue is earned directly from Zambia's involvement in international trade. For example, Zambia experienced trade surpluses before the year 2000, with the highest surplus of K654, 084 million reported in the year 1999 . However, this trend reversed with imports recording more expenditure than receipts from exports after 2000. Naturally, this led to the country experiencing unfavourable trade balances. In addition , traditional export products (which only include copper and cobalt ) and selected export products ( cotton , precious / semi precious stones ,sugar , cut flowers, tobacco and cement ) all accounting for 76 percent annually mainly dominated the export trade profile. However, export data indicates low export earning compared to imports.[54]

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[53] . Microsoft ® Encarta Encyclopedia 2002 c 1993 – 2001 Microsoft Corporation.
[54] . Eternal Trade Statistics Bulletin – 2004, by Central Statistical Office (CSO), p vi.

As a matter of fact, the total revenue exports in 2003 was recorded at K4, 626, 000 million, of which about K2, 498, 228 million was traditional exports. The rest of this was non-traditional exports, of which Cane Sugar accounted for the largest proportion.[55]

Important to say that of these Zambian exports, the major destinations include the following: Europe- of which the larger proportion is to the European Union countries; African countries - of which a larger proportion goes to SADC countries; and Asia. The share of exports to Asia rose by 5 percent between the years 2002 and 2003 being the percentage raise from 6 percent in 2002 to 11 percent in 2003. In the Asian market , the major destination for Zambia's export products include Hong Kong , United Arab Emirates , India ,China , Thailand and South Korea. [56]

On the other hand , the total value of imports in 2003 was K7, 423, 450 million of which about fifty percent was the combined contribution of consumption goods and capital goods; and these mainly included machinery and transport equipment , chemicals , manufactured goods which were chiefly classified by material, mineral fuels, lubricants and related materials and miscellaneous manufactured commodities.[57]

Concerning capital goods on the one hand, the annual imports accounted for about 22 percent of the total value of imports for the period under review. Intermediate products on the other hand contributed an annual average proportion of about 29 percent towards the total value of imports

[55] . Ibid.
[56] . Ibid.
[57] . Ibid.

between 1999 and 2004. The remainder of a percent of the total imports accounted for imports of raw materials.[58]

At this stage it may be important to show the nature of the conduct of trade as regards to the imports and exports discussed above, according to sections and over a time period. The discussion will be based on the information gathered by the Central Statistics Office (CSO) covering years 1999 to 2004. The tables below show the summary figures concerning Zambia's Trade with the rest of World by SITC sections.

[58]. Ibid.

**Table 1: Zambia's Exports to the rest of the World by SITC sections, 1999 – 2004 (K'Million)**

| Section | Commodity Description | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|
| 0 | Food & Live Animals | 164,483 | 207,025 | 273,646 | 300,448 | 356,265 | 298,599 |
| 1 | Beverages & Tobacco | 27,795 | 34,460 | 50,282 | 72,391 | 97,860 | 122736 |
| 2 | Crude Materials,(Exc. Fuels) | 538,025 | 220,647 | 192,705 | 318,700 | 425,379 | 641,486 |
| 3 | Mineral Fuels, Lubricants & Related Materials | 12,908 | 28,603 | 35,928 | 33,450 | 64,572 | 66,363 |
| 4 | Animal & Veg. Oils, Fats & waxes | 1,461 | 660 | 497 | 1,136 | 2,116 | 1,691 |
| 5 | Chemicals | 22,301 | 14,119 | 20,741 | 49,604 | 44,715 | 88,126 |
| 6 | Manufactured goods classified chiefly by material. | 1,500,056 | 2,123,024 | 2,840,613 | 3,081,816 | 3,515,735 | 2,354,650 |
| 7 | Machinery & Transport Equipment | 29,288 | 39,849 | 32,866 | 34,811 | 38,538 | 33,480 |
| 8 | Miscellaneous Manufactured articles | 27,448 | 37,108 | 18,208 | 75,340 | 51,423 | 54,642 |
| 9 | Commodities &Transactions not classified elsewhere in the SITC | 4,134 | 11,062 | 71,721 | 102,220 | 29,396 | 2,905 |
| ***TOTAL*** | | **2,327,901** | **2,716,558** | **3,537,207** | **4,069,916** | **4,625,999** | **3,664,676** |

Data for 2004 are preliminary and run up to June only.
**Source,** CSO, External Trade Statistics Bulletin – 2004

**Table 2: Zambia's imports from the rest of the World by SITC Sections, 1999 –2004 (K'Million).**

| Section | Commodity Description | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|
| 0 | Food & Live Animals | 147,590 | 160,527 | 220,773 | 509,124 | 756,350 | 241,933 |
| 1 | Beverages & Tobacco | 5,188 | 7,424 | 9,218 | 8,849 | 9,948 | 5,426 |
| 2 | Crude Materials,(Exc. Fuels) | 55,884 | 150,938 | 139,800 | 154,491 | 278,661 | 156,925 |
| 3 | Mineral Fuels, Lubricants & Related Materials | 85,024 | 336,013 | 271,083 | 311,550 | 610856 | 578,227 |
| 4 | Animal & Veg. Oils, Fats & waxes | 32,537 | 48,887 | 69,025 | 100,087 | 157,475 | 87,209 |
| 5 | Chemicals | 278,992 | 412,438 | 626,397 | 780,114 | 1,372,871 | 698,468 |
| 6 | Manufactured goods classified chiefly by material. | 221,849 | 402,119 | 604,844 | 657,393 | 1,179,805 | 711,073 |
| 7 | Machinery & Transport Equipment | 537,565 | 827,169 | 1,331,343 | 1,569,141 | 2,385,429 | 1,473,054 |
| 8 | Miscellaneous Manufactured articles | 307,409 | 402,518 | 575,138 | 634,276 | 671,897 | 778,534 |
| 9 | Commodities &Transactions not classified elsewhere in the SITC | 1,780 | 3,526 | 2,876 | 199 | 158 | 92 |
| **TOTAL** | | 1,673,817 | 2,751,563 | 3,900,497 | 4,725,224 | 7,423,450 | 4,730,941 |

Data for 2004 are preliminary and run up to June only.

**Sources:** External Trade Statistics Bulletin-2004 (CSO).

Under the food section which in the table has been referred to as section 0 , the major import products are cereal and dairy produce which account for over 70 percent of the total of the imports for the section in a year . The section under consideration has recorded increases in the total value of imports over a period in question. For instance, the year 1999 accounted for about 9 percent of the total imports. Notwithstanding, however, that the year 2000 recorded a decrease to 6 percent, the following year, 2001 accounted for an increase of one percent to 7 percent. In the year 2002, the country recorded an increase to about 10 percent and the status quo remained the same in 2003 being the contribution of the food section towards the total value of imports. The share of exports remained constant at about 8 percent through out the period under review (1999 to 2004).[59] The question to be answered is whether it is still justifiable in such an era to still be hugely importing dairy produce. One would think if there was good management of disease control in the country, we should have been moving towards modernising the peasant farmers' dairy produce techniques and an industry to this effect made. It is one area if well handled that could have provided competitive products.

The trend (of an increase in the total value of imports) was basically the same for every section indicated in the tables. For example, the value of imports under the Beverages and Tobacco (section 1) accounted for a 43 percent increase from K5, 188 million in 1999 to K7, 424 million in 2000 before increasing to K9, 218 million in 2001 representing an increase of 24 percent over the 2000 figure. However, the period between 2001 and 2003 recorded a decline in the imports value of about 8 percent on average. The major products accounting for a greater proportion of the total imports in this category include waters (mineral and aerated water, beer, wines and whiskies).[60]

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[59] . Ibid.

[60] . Ibid.

One would hope that the reduction in imports results from the mushrooming of the water companies or otherwise, the ability by the industries manufacturing the said products in the local industry to satisfy the local market to the extent of the reduction.

Lubricants, fuels and related materials reported under section 3 similarly show an increase in the total value of imports through out the period under review serve for the year 2001. The total imports for this year (2001), reduced by 19 percent from K336, 013 million in 2000 to K271, 083 in 2001. This was before the raise to K311, 550 in the year 2002 accounting for a 15 percent increase in 2002. The 2003 total value of imports in this category represented a 96 percent increase thereby accounting for the raise to K610, 856 million. However, since data available for 2004 was representative of a period up to June, it was clear by the time of writing the bulletin that the import figure of K666, 913 million indicated that by the end of the year, the total import value of the imports of lubricants and fuels would be highest in 2004. The main commodity imported under this category is petroleum products accounting for over 80 percent of the total value of imports.[61]

Oils and Fats reflecting under section 4 of the tables above show a slight but constant increase of about 2 percent annually over the period under review. Vegetable and fats accounted for the bulk of the total imports under the section with about over 80 percent share. The chemical section also recorded increases, through out the period in question. Chemicals accounted for an estimated value of 17 percent of the total imports annually. The prominent commodities imported in this category were medical and pharmaceutical products, explosives and polyethylene products, fertilizers and organic chemicals all accounting for over 70 percent of total value of imports under the section. The Machinery and Transport Equipment section (reported under section 7) shows

[61]. Ibid p vii.

significant increases throughout the time period. The major products imported include motor vehicles, telecommunications equipment and industrial machinery. This section has continued accounting for the largest proportion of the trade profile since our independence in 1964. The Miscellaneous Manufactured Articles under section 8 also contributed notably in terms of imports during the period 1999 to 2003 accounting for a share of 15 percent of the total imports. There was, during the material time, a steady increase annually of the total value of imports. The major products that have formed part of the trade in this section include books, wooden furniture and footwear.[62]

However, for all the sections discussed above (from beverages and tobacco under section 1 to Miscellaneous Manufactured Articles under section 8), the value of exports is almost negligible for each. For example, the total value of exports in the chemical section was reported to be very low such that their annual share of the total export revenue was minimal. The beverages and tobacco section recorded about 2 percent annual contribution towards the total value of exports which is almost negligible.[63]

On the other hand, the Crude Materials (section 2) and Manufactured Goods classified chiefly by material (section 6) would be said to hold a slightly different characteristic. For instance, the crude materials section proportion of total imports value fluctuated between 3 percent and 5 percent between the years 1999 and 2003. The smallest value of K55, 884 million was recorded in the year 1999, the figure increased significantly to K150, 938 million in 2000 and stabilized afterwards up until 2002 when the import figure of K154, 491 million was recorded. The 2003 figure of K278, 661 million recorded represented about 79% increase over the 2000 figure. However, in 2004 the trade

[62]. Ibid.
[63]. Ibid.

data (which ran up to June) recorded at K156, 925 million indicates an upward trend as compared to the values of obtaining between 1999 and 2003 which have complete data. This is data on which the most imported commodities included cotton (not carded or combed) and textile fibre, which accounted for a significant proportion of the total imports of the section.

Unlike the other sections discussed above, the Crude Materials section, with regard to exports, recorded significant values in terms of revenue between 1999 and 2004. The highest being K538, 025 million in 1999 and the lowest recorded in 2001 to the value of K192, 705 million.[64] As regards Manufactured Goods classified chiefly by material, the products under the section include paper (uncoated in rolls or sheets) and rolled iron and steel. The section also recorded an upward trend of the total value of imports through out the entire period. As you notice in the table, figures increased from K221, 849 million in 1999 to K402, 119 million in 2000. The trend continued with import values at K657, 393 million in 2000 when compared with a figure of K604, 844 million in 2001. 2003 recorded an import figure that was significantly high (almost twice the 2002 figure) to the value of K1, 179, 805 million.[65]

According to CSO, this section is by far the major source of revenue in terms of exports. The total earnings for the section fluctuated between K1, 500, 059 million in 1999 and K3, 515, 735 million in 2003 which resulted in significant increases across the years. For example, revenue increased in 2000 by 42% from the figure in 1999 to the 2000 figure of K2,123, 024 million, and by about 34% between 2000 and 2001 from the K2, 123, 024 million to K2, 840, 613 million. Important to state , however, that the export earnings between 2002 and 2003 indicate a fair increase of about 14 percent from K3, 081, 816 million to K3, 515, 735 million respectively. The major products that

[64] . Ibid. pvi & vii.
[65] . Ibid.

have been exported under this heading include copper and its articles, precious stones, cotton yarn and intermediate commodities of cobalt among others.[66]

Zambia's export trade has generally experienced increases since the year 1999 in the various categories of export products. The traditional exports mainly copper and cobalt with their articles have made the greater portion of trade in exports in Zambia. These products that have dominated Zambia's export sector through out the material period[67] have accounted for about 65 percent to the total exports.

The paper will now look at the share of trade within COMESA by Zambia of its world trade. All the analysis of Zambia's share of trade in COMESA in comparison with its trade with the rest of the world will be based on statistical data compiled by the Central Statistical Office.[68]

The following data in the table below will be useful in determining the extent of trade Zambia is involved in with COMESA.

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[66] . Ibid.

[67] .1999 to 2004.

[68] . External Trade Statistics Bulletin- 2004.

**Table 3: Markets for NTEs for period 1999 to 2004, (K' Millions)**

| Market/Region | 1999 | %share in | 2000 | %share in | 2001 | %share in | 2002 | %share in | 2003 | %share in | 2004 | %share in |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | K'Million | Region | K'Million | Region | K'Million | Region | K'Million | Region | K'Million | Region | K'Million | Region |
| A.COMESA | | | | | | | | | | | | |
| Tanzania | 88,096 | 32.90 | 16,437 | 6.34 | 11,531 | 4.26 | 34,185 | 4.51 | 16,679 | 1.89 | 25,883 | 2.46 |
| Congo (DR) | 88,788 | 31.66 | 115,155 | 44.39 | 116,315 | 43.99 | 166,492 | 21.95 | 197,083 | 22.34 | 245,240 | 23.27 |
| Zimbabwe | 30,005 | 11.75 | 49,347 | 19.02 | 34,055 | 12.59 | 65,526 | 8.64 | 105,799 | 11.99 | 98,167 | 9.931 |
| Malawi | 31,471 | 11.75 | 49,347 | 19.02 | 34,055 | 12.59 | 65,526 | 8.64 | 105,799 | 11.99 | 98.167 | 9.31 |
| Uganda | 13,390 | 5.00 | 4,038 | 1.56 | 3,997 | 1.48 | 2,579 | 0.34 | 366 | 0.04 | 125 | 0.01 |
| Kenya | 1,375 | 0.51 | 3,288 | 1.27 | 34,849 | 12.88 | 3,025 | 0.40 | 4,542 | 0.51 | 2,459 | 0.23 |
| Burundi | 6,751 | 2.52 | 7,882 | 3.04 | 6,793 | 2.51 | 8,912 | 1.17 | 13,091 | 1.48 | 7,529 | 0.71 |
| Rwanda | 5,938 | 2.22 | 7,622 | 2.94 | 13,670 | 5.05 | 4,556 | 0.60 | 6 | 0.00 | 267 | 0.03 |
| Namibia | 3,647 | 1.36 | 6,107 | 2.35 | 3,047 | 1.13 | 7,971 | 1.05 | 5,986 | 0.68 | 3,010 | 0.29 |
| Mauritius | 37 | 0.01 | 1,209 | 0.47 | 10,349 | 3.82 | 27,001 | 3.56 | 18,087 | 2.05 | 10,26 | 0.97 |
| Other COMESA | 2,290 | 0.86 | 2,932 | 1.13 | 1,515 | 0.56 | 383,425 | 50.54 | 446,715 | 50.65 | 527,475 | 50.05 |
| Total COMESA | 267,788 | 100.00 | 259,440 | 100.00 | 270,586 | 100.00 | 758,617 | 100.00 | 882,047 | 100.00 | 1,053,871 | 100.00 |
| B. European Union | 196,307 | 100.00 | 204,644 | 100.00 | 295,664 | 100.00 | 265,474 | 100.00 | 320,641 | 100.00 | 250,516 | 100.00 |
| C. Asia | 40,172 | 100.00 | 44,442 | 100.00 | 202,641 | 100.00 | 204,697 | 100.00 | 357,903 | 100.00 | 62,267 | 100.00 |
| South Africa | 186,421 | 39.72 | 148,000 | 55.45 | 255,670 | 72.03 | 388,918 | 75.24 | 349,425 | 70.76 | 575,519 | 82.52 |
| Other Markets | 469,360 | 100.00 | 266,888 | 100.00 | 354,952 | 100.00 | 516,919 | 100.00 | 493,832 | 100.00 | 650,152 | 100.00 |
| Total World NTEs | 973,627 | | 775,414 | | 1,123,843 | | 1,745,707 | | 2,054,423 | | 2,016,806 | |

**Note:** (i) Tanzania is included under COMESA for statistical purposes only after the period 2001. Otherwise pulled out in 2001;
(ii) 'Total other markets' includes South Africa's figures.
(iii) Data for 2004 run up to June.
**Source:** External Trade Statistics Bulletin-2004; CSO.

The table above reveals that the COMESA region is an important destination for Zambia's non-traditional exports. It accounts for about 34 percent of the annual revenue. Clearly, Congo (DR) is by far the most important outlet for Zambia's non-traditional exports (NTEs). For instance, although in 1999 Tanzania had claimed a higher share of Zambia's NTEs with an export value of K88,096 million accounting for about 33 percent of the market region, while Congo (DR) only had K84,788 million representing a market share of about 32 percent, Congo (DR) thereafter took a higher COMESA market share of the Zambian Exports.

In 2000, Congo (DR) took its leading role in the market share of the Zambian NTEs accounting for 44.39 percent with the closest being the Malawian market representing a 19.02 percent. The status quo remained almost the same in 2001 when the percentage share of markets for Zambian NTEs in Congo (DR) was at about 43% while Malawi was this time joined by Zimbabwe in second slot representing about 13 percent each of the Zambian NTEs market each withstanding the Malawian was slightly higher. However, even when the market share fell in Congo (DR), for the years 2002, 2003 and 2004 represented by 21.95, 22.34 and 23.27 percent respectively, the country still remained Zambia's dominant destination being at almost double the closest of the individual markets represented on the summary above. For instance, in 2002, Malawi that forms one of Zambia's markets only contributed 8.64 percent with Zimbabwe contributing 7.24 percent of the national revenue. In fact, the DRC market share is slightly above three times the size of the Zimbabwean market share for this year. The other various COMESA countries that form major destinations of Zambia's Non-Traditional Exports have had fluctuations in the market share value from year to year.

The total export earnings from the European Markets accounted for quite a substantial amount of the total revenue for Zambia during the period 1999 to 2004 although the 2004 data went only up to June.

Clearly, as is shown in table 4 below, Europe is the major destination for Zambia's exports, accounting for the largest average share of about 59% and of this the European Union takes the largest proportion.[69]

As we may be aware, it is a notorious fact that, of the COMESA member countries, some belong to other economic blocs such as SADC (the Southern Africa Development Community). In fact, Angola, DRC, Malawi, Mauritius, Seychelles, Zambia, Swaziland and Zimbabwe are members of COMESA and SADC. Mozambique, Lesotho and Tanzania, although belonging to SADC, have since pulled out of COMESA.[70] Namibia has also withdrawn but CSO still uses it for the sake of analysis of the trade as done then.[71] Seychelles had, together with Namibia indicated by last year, the desire to withdraw from COMESA.[72]

If we strictly consider trade Zambia has done with those countries that are strictly COMESA members, the story will be different. When trade for Zambia is analysed on the basis of each economic bloc Zambia is a member (for example COMESA and SADC) and removing from COMESA any SADC member country, we discover that Zambia's trade with COMESA is so insignificant.

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[69]. Ibid. p17.

[70]. What should Parliamentarians know about Zambia's Trade Arrangements? Ministry of Commerce, Trade and Industry, March 2004, p 12.

[71] .According to Mr. Manyika Dene of CSO (External Trade Department),2005.

[72] . Op cit.

The Central Statistical Office also made such an analysis. The office analysed Zambia's "export market share by major trading partners."[73] According to CSO, based on the above analysis, COMESA did not form part of Zambia's major trading partners. Instead, it was put under the category, the "rest of Africa". Even after being put under this class, the combination of COMESA and other African countries did not give the class any advantage in market share. It ("rest of Africa") still accounted for the least of Zambia's major trading partners with the least of 1.1% in 2002 and 2003 and never going beyond the figure 2.1% of 2001. At any rate, this category only barely managed to surpass Zambia's trade with the "rest of the world" category by a few points during the first half of the time period under review as shown in the table below.

**Table 5: Export percentage market shares by major trading partners, 1999 to 2004.**

| Region/Continent | 1999 | 2000 | 2001 | 2002® | 2003 | 2004* * |
|---|---|---|---|---|---|---|
| SADC | 23.8 | 29.1 | 29.2 | 37.2 | 43.7 | 48.1 |
| Rest OF Africa | 1.6 | 1.3 | 2.1 | 1.1 | 1.1 | 0.8 |
| Africa Total | 25.4 | 30.5 | 31.3 | 38.3 | 44.8 | 48.9 |
| Asia | 6.5 | 1.6 | 5.9 | 6.1 | 11.2 | 7.9 |
| European Union | 53.1 | 55.0 | 55.4 | 47.6 | 34.5 | 26.2 |
| Rest OF Europe | 14.2 | 11.8 | 6.5 | 6.7 | 8.1 | 16.0 |
| Europe Total | 67.3 | 66.7 | 61.9 | 54.3 | 42.6 | 42.3 |
| Rest of the World | 0.9 | 1.1 | 1 | 1.4 | 1.5 | 1.0 |
| **World Total** | **100** | **100** | **100** | **100** | **100** | **100** |

**World Total** = Total Africa + Total Asia + Total Europe +Rest of the World
**Note**: ® denotes revised, while 2002 data run up to June.
**Source**: External Trade Statistics Bulletin-2004; CSO.

Instead, CSO reported that Europe generally is the major destination for the Zambian exports of which the European markets take the greater share. According to CSO, "the EU share recorded the highest figure of about 55 percent between 2000 and 2001 while the lowest figure of about 35 percent was recorded in 2003. The reduction in the EU share could be attributed to Zambia's shift in market access which led to increased revenue inflows from SADC and Asia. For example, the share for SADC rose by 6 percent in 2003; where as exports to the EU dropped by 13 percent

[73] . External Trades Statistics Bulletin – 2004, CSO, p 13.

during the same period".[74] From the data in the table, EU has dominated the market share accounting on average for about 49 percent of foreign exchange for Zambia.[75] Although the data indicates Africa as the second largest trading partner after Europe, the largest proportion is for the SADC region. The proportion of the market share ranges from 23.8 percent to 43.7 percent for the completed material years.[76]

The major trading partners within the SADC region for Zambia include South Africa which accounts for the largest share, Congo (DR), Tanzania and Malawi. These countries make about 92 percent of the total SADC market share. The rest of the SADC countries comprise of the remaining 8 percent market share. The rest of the World on the other hand accounted for about 5 percent of the total market share, for the period 1999 to 2003.[77]

On the other hand, CSO reported that "Zambia's overall import trade during the period 1999 to 2004, remained highly concentrated in the three continents; namely, Asia, Europe and Africa. Among these, the African continent ranked highly with an average import market share of 66 percent. Europe was second with 17 percent and then Asia with 13 percent, while the rest of the world accounted for the remaining share of 4 percent".[78] The table below summarises this information.

[74]. Ibid.
[75]. Ibid.
[76]. With an average of 34 percent during the period.
[77]. Op cit.
[78]. Ibid.

**Table 6: Import Percentage Market Shares by Major Trading Partners, 1999 – 2004.**

| Region/Continent | 1999 | 2000 | 2001 | 2002 ® | 2003 | 2004** |
|---|---|---|---|---|---|---|
| SADC | 56.9 | 68.8 | 67.6 | 67.2 | 66.2 | 53.9 |
| Rest of Africa | 0.5 | 0.5 | 0.7 | 1.4 | 2.0 | 1.7 |
| Africa Total | 57.4 | 69.3 | 68.3 | 68.6 | 68.2 | 55.6 |
| Asia | 14.9 | 9.8 | 12.4 | 13.3 | 13.3 | 15.4 |
| European Union | 21.2 | 14.0 | 15.1 | 14.6 | 14.1 | 23.6 |
| Rest of Europe | 1.2 | 0.7 | 0.6 | 0.6 | 0.9 | 1.0 |
| Europe Total | 22.4 | 14.7 | 15.6 | 15.2 | 15.0 | 24.6 |
| Rest of the World | 5.6 | 6.2 | 3.7 | 2.9 | 3.5 | 4.4 |
| World Total | 100 | 100 | 100 | 100 | 100 | 100 |

World Total = Total Africa + Total Asia + Total Europe +Rest of the World
**Note**: ® denotes revised, while (**) denotes data up to June and is preliminary.
**Source:** External Trade Statistics Bulletin-2004, CSO.

Zambia earns revenue by levying taxes on imports. The area of interest is that revenue which is earned from trade within COMESA. Table 7 below shows the summary totals of the taxes earned on imports on various goods from various COMESA member states. Although the figure of K75,851,079,592 earned in duty taxes in 2002 may appear small when compared with the year's Gross Domestic Product (GDP),[79] the value earns itself some amount of appreciation when compared with the government final consumption figure (at current price) of K2,109.4 billion[80] where it takes a ratio of about 0.04 percent.

The year 2003 accounted for the highest figure of K196, 087,058,671 with Zimbabwe taking the largest proportion of more than 50 percent of the total revenue earned on imports for the year. Accounting for about 79 percent of the total revenue in 2003, trade with Zimbabwe earned good revenue for the country. As a matter of fact, Zimbabwe took the lead in the contribution towards imports duty revenue in all the three years under review.

[79]. Owing to the fact that the figure is only about 0.0047% of the GDP of K16,260.4 billion reported in CSO's National Accounts Statistics. CSO reported for this GDP at current price index.
[80]. Reported under the heading "consumption / investment, 2000 / 2003 in selected Socio-Economic Indicators 2000-2003 by CSO, November 2004, pp 36 &37.

**Table 7: Summary Totals Regarding Zambia's trade within COMESA countries by import taxes in (ZMK) for the period 2002 to 2004.**

| Country | 2002 | 2003 | 2004 |
|---|---|---|---|
| Angola | 5,590,437 | 40,266,275 | 107,989,508 |
| Burundi | 517,441 | 0 | 12,021,169 |
| Egypt | 537,477,922 | 1,821,121,658 | 2,972,322,615 |
| Ethiopia | 20,536,606 | 86,637,832 | 91,317,523 |
| Kenya | 8,031,479,392 | 18,779,802,755 | 28,891,851,549 |
| Mauritius | 2,611,207,990 | 1,602,311,485 | 2,017,461,100 |
| Malawi | 1,247,834,357 | 5,640,221,989 | 72,971,092,103 |
| Namibia*** | 2,651,549,294 | 4,537,827,019 | 5,387,330,141 |
| Sudan | 2,918,240 | 0 | 93,532,383 |
| Swaziland | 2,442,942,754 | 4,837,493,185 | 5,894,567,688 |
| Uganda | 135,253,525 | 4,279,130,846 | 300,130,306 |
| Congo (DR) | 1,334,052,083 | 5,841,706,034 | 12,619,590,272 |
| Zimbabwe | 56,829,719,548 | 148,617,318,075 | 87,120,616,910 |
| Eritrea | 0 | 2,492,878 | 1,082,632 |
| Rwanda | 0 | 728,640 | 34,670,357 |
| Seychelles | 0 | 0 | 47,148,250 |
| **GRAND TOTAL** | **75,851,097,592** | **196,087,056,671** | **150,614,653,668** |

Namibia*** - is no longer a COMESA member but this data treats it as one.
**Source:** External Trade, Central Statistical Offices (CSO).

The lead by Zimbabwe could be ascribed to the economy that favoured cross boarder trade between the two countries then. The things are, however, getting different now. The grabbing of land from white farmers, and pursuant to which economic sanctions were made so much that the economy is shrinking, may be the cause of the drop in the 2004 figure to K150, 614,653,668. One would only be sure after comparing with the 2005 figure when it is red and for other years to come if similar circumstances will prevail. Currently, Zimbabweans prefer buying from Zambia as the Zambian currency is gaining as against that of Zimbabwe.

As Zambia, ranked as one of the poorest countries,[81] is in a hurry to develop (as is often recanted by our politicians), these amounts earned in customs duties cannot be trivialised. Tariffs imposed on imports are an important source of revenue as already noted in chapter two and countries are reluctant to let go.

This then leads us into the next topic discussing the impact of the COMESA FTA on the trade pattern in Zambia as regards exports and imports.

[81] Hatoongo's Obligatory Essay 2001

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[81] Hatoongo's Obligatory Essay 2001

# CHAPTER FOUR

As already seen in chapter three above, Zambia is in fact trading more with the SADC countries than it is doing with non–SADC member countries which belong to COMESA.

The paper now seeks to analyse the contribution towards Zambia's trade within the COMESA region alone without including those members that also belong to SADC where Zambia is a member too. This type of a split is necessary in order to give the real impact or contribution the COMESA FTA has had on Zambian trade with regard to exports and imports. The impact required will be that which is economic in nature. The analysis based on this type of split is necessary since Zambia would still benefit in trade with COMESA member countries that also belong to SADC even if, per adventure, Zambia or any or all of these member states were to pull out of the COMESA FTA. It is hoped that this will shade light as to the real contribution made by the FTA towards Zambia's trade in imports and exports within the region. Comparison of Zambia's similar trade with other regions and regional arrangements like Asia and the European Union respectively will be called into aid. This type of contribution being inquired into is what will be useful in determining whether belonging to such an FTA has paid dividends or not to Zambia; whether, based on the status quo, it would be prudent to join the Customs Union being propagated by COMESA.

## 4.0 An Analysis of the Impact of the COMESA FTA on Zambian Trade Based on Markets for the Zambian Traditional and NTEs for the Period 1999-2004

Even when, by virtue of table 3 in chapter three, COMESA is dabbed as an important outlet for the Zambian Non-Traditional Exports (NTEs) accounting for about 34percent of revenue annually, the majority of the contribution towards this revenue comes from COMESA member countries that belong to SADC as well. For instance, of the revenue of K267, 788 million which was earned by Zambia in trade within COMESA for the year 1999, K238, 044 million was the revenue that came from COMESA member states that also belong to SADC. This accounted for about 89 percent of the revenue from within the COMESA region for that year. The percentage could even be slightly higher since the category dabbed 'Other COMESA' which accounted for a revenue of K2, 290 million may include some good proportion of a contribution from SADC member countries like Angola whose individual country figures have not been reflected. This means that the effective contribution that COMESA made in this year towards Zambia's revenue earnings in exports of NTEs within the region is about 11 percent or even slightly less. This represents about 3.05 percent of the revenue of K973, 627 million earned from world trade by Zambia in NTEs. The following year (2000) saw non-SADC but COMESA member states contribute about 10 percent of the total revenue of K259, 440 earned from all COMESA member states. This means trade in NTEs improved to about 90 percent by about 1 percent for member states in both SADC and COMESA and the market share of Zambia's trade in NTEs improved for non-SADC but COMESA member states to about 3.32 percent in respect of world trade. This improvement of about 0.27 percent may be associated with the drop in the trade figure with Tanzania by a percent change of about 26.56 percent and the corresponding increase in the exports to all non-SADC COMESA member countries as shown in table 3 above. However, Zambia's total world revenue for the year for NTEs dropped from the previous year's figure, representing a downward percentage change of 20 percent. In the year 2001, COMESA's real contribution in market share had moved from a world proportion of about 3.32 percent to about 5.41 percent. This means Zambia had increased its market share in the 'COMESA – only' member states (Non-SADC members) for NTEs by about 2.09 percent. The value of exports had also increased in the world market. The COMESA contribution became meaningful in the years 2002 and 2003 when trade with non- SADC states accounted for about 50.5 percent and 52.7 percent respectively as against regional trade while, when tested against the market share it offers on Zambia's NTEs, it contributed about 23.1 percent and 23.1 percent respectively. Clearly, while there is a percentage change of 28 percent of the 2002 ratio in 2003, there is only an improvement of 0.8 percent of the world trade.[82]

The workings to get these percentages are arrived at by adding up all values for a given year, of export revenues from COMESA states that do not belong to SADC and the figures under "other COMESA" as found in table 3 (chapter three) above. The presumption taken is that "other COMESA" will not include SADC member states.

If, on the contrary the figure for the category dabbed "the other COMESA" also includes some SADC member countries, then we can see that the real market share contribution will reduce. However, the figures under "other COMESA" rocketed upwards starting from 2002. This real contribution of COMESA will only be reliable based on the above presumption. The presumption, however, can as well be seriously challenged if we consider the contribution of COMESA from the perspective of trade on all products and not only Non-Traditional Exports (NTEs). Before getting to look at the COMESA FTA contribution based on General trade, an example of how these figures were obtained will help. If we refer to figures for the year 2002 under table 3 above, we find that non-SADC member states, markets share within COMESA were as follows in million kwacha.

| | | |
|---|---|---|
| Uganda | ------- | 2,579 |
| Kenya | ------- | 3,025 |
| Burundi | ------- | 8,912 |
| Rwanda | ------- | 4,556 |
| Other COMESA | ------- | 383,425 |

[82]. All the above analysis is based on table 3 above, sourced from CSO.

Total non-SADC ------- 402,425

Proportion of trade of this class of states within COMESA is given by formula

$$\frac{\text{Total value of trade for the class}}{\text{Total value of trade in region}} \times 100$$

$$= \frac{402\,497}{758\,617} \times 100$$

$$= 53.1\%$$

This is so because table 3 above shows the Total for COMESA including SADC members to be K758, 617 million.

To get the value of contribution at world trade of the NTEs by non- SADC COMESA states;

$$\frac{\text{Total value of trade with non-SADC}}{\text{Total value of world (NTEs)}} \times 100$$

$$= \frac{402\,497}{1{,}745{,}707} \times 100$$

$$= 23.1\%$$

There was, clearly, in this sector of NTEs, an increase in trade within COMESA based on the above analysis. This positive impact may be based on the agricultural sector which has played a key role in out put growth in a number of COMESA countries of which Zambia is part.[83]

In fact, sugar is among the Non-Traditional exports whose contribution to the total export earnings for the country has been growing considerably. In 1999, for instance, sugar accounted for about K38, 000 million. The export earnings doubled in 2001 over the 2000 figure of K72, 350 million. The revenues that were recorded between 2002 and 2003 are K138, 536 million and K147, 398 million respectively. Despite this increase, the major markets do not include much of the non-SADC but COMESA member states. As a matter of fact, the major destinations include Portugal in

[83]. COMESA merchandise Trade Statistics, Bulletin 4, December 2004, p 5.

Europe, and in Africa, Tanzania, Malawi, Congo(DR), South Africa and Zimbabwe, all of which are SADC member states although belonging to COMESA, except for South Africa. The only COMESA member states that form a major destination for Zambia sugar and do not belong to SADC are Uganda and Burundi.[84] This is regardless of the fact that within the COMESA FTA, trade performance for most of the years under review (i.e. up to 2003) was dominated by tea, raw cane sugar, Portland cement, tobacco, cotton and medicaments.[85] At the time COMESA prepared the bulletin, Malawi, Zimbabwe were said to be the leading exporters of tobacco in the COMESA FTA.

Tobacco was once among Zambia's prominent traditional exports especially immediately after independence. However, production levels with time became very unstable. Notwithstanding, the foregoing, the production levels of tobacco during the early 90s and years after began to improve. In fact, the period 1999 and 2000 recorded a steady increase in the export earnings through out. After the year 2001, notable increases were recorded in values of exports of tobacco with the highest figure of K95, 138 million recorded in 2003 alone. Even when COMESA brags of Zambia being one of the main or leading exporters of tobacco, COMESA is not one of Zambia's major markets for its tobacco at world level. The major markets during this period for Zambia were the European Union countries that mainly include Germany, Austria, Italy, Portugal and Belgium.[86]

The floriculture, on the other hand, is among the recent and potential sub-sectors of Zambia's economy whose receipts from exports have substantially increased. Cut flowers experienced steady increases in revenue for the period 1999 to 2001 accounting for K5, 075 million in 1999 and K9, 475 million. This represented an increase of about 87 percent. The year 2001 recorded

[84]. External Trade Statistics Bulletin – 2004, CSO, p. 10.
[85]. Op cit, p. 15.
[86]. Op cit, p. 10 & 11

earnings of K17, 721 million before declining slightly in 2002 to K14, 365 million. However, the sector made a huge recovery in 2003 of almost three times the figure in 2002, recording a revenue of K36, 275 million. Europe again is the major destination with EU accounting for the greatest proportion for this sector.[87]

Cotton, although currently being among Zambia's highest foreign exchange earner of Non-traditional exports (and in fact the highest earner for agricultural – products on average)[88] does not form part of Zambia's main exports to COMESA.[89] Instead, the major markets for Zambia cotton include Germany, United Kingdom, Mauritius, Belgium and South Africa. Clearly, the share for these cotton exports is shared between Europe and SADC. Nothing goes to COMESA countries that are not in SADC. Mauritius though a major destination of the cotton also belongs to SADC and cannot count.

The traditional exports, mainly copper and cobalt, which account for the majority of Zambia's foreign exchange earners,[90] have the major destinations as Europe, Asia (especially Japan for copper) and South Africa.[91] COMESA in this case, again does not form part of Zambia's major export markets.

It must aptly be stated that the real contribution by the COMESA FTA in the area of export markets for Zambia is not anything to be proud about. In the CSO Bulletin of 2004 on External Trade

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87. Ibid.
88. Ibid, p 9.
89. As seen in the Commodity Analysis by COMESA in the COMESA Merchandise Trade Statistics, Bulletin for December 2004 at p.13.
90. Op cit, p.vi. of the revenue of K4,626, 300 earned from exports in 2003, about K2,498, 228 million was traditional for exports (CSO Bulletin above).
91. Ibid, p.8.

Statistics, the analysis of “Export Market Share by Major Trading Partners”[92] does not include COMESA as one of the major trading partners. For a Regional Trade Arrangement that boasts to be the largest in Africa to only account for less than 2 percent on average of Zambia's market share should worry the leadership in Zambia. Over the period between 1999 and 2004 inclusive, the "Rest of Africa" formed an average of 1.33 percent per year of the world market share of Zambia's products.[93] This is where the rest of COMESA, other than SADC member countries are represented. This, therefore, means that COMESA's real contribution towards Zambia's trade in exports according to the National records (CSO), is by far or at least less than the share percentage for the "Rest of Africa" for each of the six years under review. Even when the 2004 figure represents data up to June, not much will be expected to change the market share of the Zambian exports for this category for the rest of the year. In fact, it may not be stretching ones imagination too much to expect that the results would remain the same for the year 2005 for this category "Rest of Africa" in table 4.

Even when one would want to let the market share of the "Rest of Africa" be dabbed to be COMESA's export share ratio, it would still be too small for the FTA to make a real impact on the Zambian trade profile in the export share market. With the highest market share value of 2.1 percent in 2001 under this category and values thereafter, reducing by almost half to 1.1 percent for each of the years that followed (2002 and 2003),[94] the "Rest of Africa" does not give hope of salvaging the situation for the remainder of 2004 and this year (2005).

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[92].Ibid, p.13.
[93]. Table 4 above.
[94].Ibid.

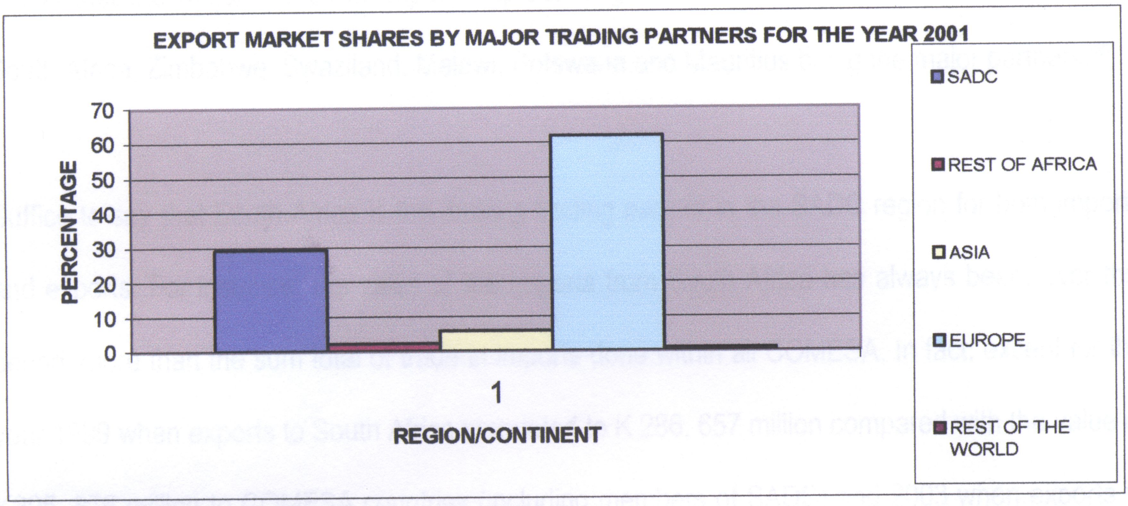


**FIGURE: 1**

However, in the view of the Central Statistical Office, the "export trade profile could be improved...when efforts are made towards market diversification and further processing (adding value ) of the raw materials exported"[95]. It is CSO's estimation that this may remain the "only way out of making Zambia's exports more competitive and less prone to price dynamics"[96] in not only COMESA but the global market as well. The office further suggests that it could be important for Zambia to explore and target markets that absorb less of the country's exports for market diversifications.

## 4.1 An Analysis of the Impact of the COMESA FTA on Zambian Trade Based on Imports by Major Markets

Zambia has traded in imports with COMESA countries over years. The analysis is based on data for the period 1999 to 2004 by CSO. Zambia's overall trade imports during the period under review remained concentrated in the three continents namely, Asia, Europe and Africa. The African continent emerged, during the period, the highest in exporting to Zambia with an average share

[95]. External Trade Statistics Bulletin – 2004, p.13.
[96]. Ibid.

market of about 66 percent.[97]Within this import share market for Africa, the table below clearly shows that the major source of imports representing over 95 percent is the SADC region with South Africa, Zimbabwe, Swaziland, Malawi, Botswana and Mauritius being the major partners.[98]

Suffice to say that South Africa is the leading trading partner in the SADC region for both imports and exports. For instance, the value of the imports from South Africa has always been, over this period, more than the sum total of trade in imports done within all COMESA. In fact, except for the year 1999 when exports to South Africa amounted to K 286, 657 million compared with the value of K295, 876 million to COMESA countries (including members of SADC) and 2003 when exports to South Africa earned Zambia K993, 514 million as opposed to the total of K1, 052, 281 million earned from exports to all COMESA, Zambia exported, in all these material years more to South Africa than she did to all COMESA states.[99]

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[97]. Ibid.

[98]. Ibid, p. 14.

[99]. Table 8 below.

**Table 7: Zambia's Trade with Regional groupings and S. Africa, 1999 to 2004 (K'Million)**

| Country/ Region | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Imports (cif) | Exports (fob) | Imports (cif) | Exports (fob) | Imports (cif) | Exports (fob) | Imports (cif) | Exports (fob) | Imports (cif) | Exports (fob) | Imports (cif) | Exports (fob) |
| S. Africa | 737,059 | 286,657 | 1,531,666 | 531,405 | 2,178,551 | 783,471 | 2,610,587 | 915,640 | 3,614,618 | 993,514 | 2,141,610 | 948,211 |
| SADC | 952,733 | 554,569 | 1,893,373 | 791,244 | 2,638,364 | 1,033,929 | 3,175,129 | 1,514,232 | 4,913,289 | 2,022,425 | 549,446 | 1,761,247 |
| COMESA | 208,292 | 295,876 | 325,498 | 284,806 | 447,178 | 308,286 | 593,113 | 625,263 | 1,368,620 | 1,052,281 | 467,018 | 820,190 |
| EU | 354,980 | 1,235,348 | 384,805 | 1,493,188 | 587,311 | 1,958,000 | 691,232 | 1,938,419 | 1,043,623 | 1,595,722 | 1,114,949 | 961,227 |

**Data for 2004 runs up to June. Data for SADC includes part of South Africa's.**

**Source: CSO; External Trade Statistical Bulletin –2004, p. 21.**

The Table below is going to be used in furthering the analysis of COMESA's real contribution towards Zambia's trade within the region.

**Table 8: Import Percentage Market Shares by Major Trading Partners, 1999 to 2004.**

| Region/Continent | 1999 | 2000 | 2001 | 2002® | 2003 | 2004 |
|---|---|---|---|---|---|---|
| SADC | 56.9 | 68.8 | 67.6 | 67.2 | 66.2 | 53.9 |
| Rest of Africa | 0.5 | 0.5 | 0.7 | 1.4 | 2.0 | 1.7 |
| Africa Total | 57.4 | 69.0 | 68.3 | 68.6 | 68.2 | 55.6 |
| Asia | 14.9 | 9.8 | 12.4 | 13.3 | 13.3 | 15.5 |
| European Union | 21.2 | 14 | 15.1 | 14.6 | 14.1 | 23.6 |
| Rest of Europe | 1.2 | 0.7 | 0.6 | 0.6 | 0.9 | 1.0 |
| Europe Total | 22.4 | 14.7 | 15.6 | 15.2 | 15.0 | 24.6 |
| Rest of the World | 5.3 | 6.2 | 3.7 | 2.9 | 3.5 | 4.4 |
| **World Total** | **100** | **100** | **100** | **100** | **100** | **100** |

Data for 2004 run up to June.
**Note**: ® Denotes revised.
**Source**: Central Statistical Office (CSO).

The impact of Zambia's trade in imports and exports with South Africa cannot be under estimated. There is real contribution and this is much more when you consider the whole SADC. This is no wonder SADC is said to contribute an average of about 63.4 percent of the market share of Zambia's imports (as deduced from the trade above).

Just as was the case with export percentage market shares, COMESA member states in this table were not taken to include those that belong to SADC. Dabbed again as "Rest of Africa", the inclusion of COMESA in this category with percentage shares that are very low means again that COMESA's real contribution in imports is, as well, minimal or insignificant. Despite taking these low import values, the value of imports from these COMESA countries is, throughout the period, more than the value of exports to these COMESA countries, except only for the year 1999 when there were more exports to the region than imports. This naturally means the country experiences balance of payments problems which will be discussed in the next chapter.

The matter of fact exposed in this discourse and in the bar charts (figure 1 above and figure 2 below) is that after considering all trade Zambia does with all the world, the COMESA FTA has barely contributed towards Zambian trade.

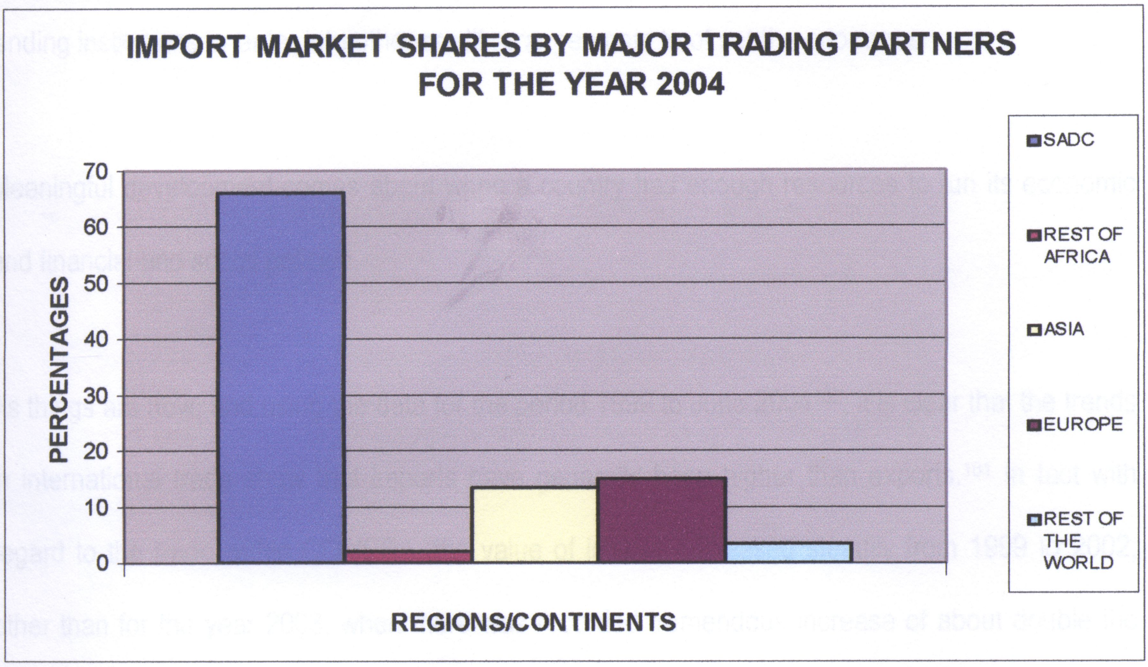


FIGURE: 2

SADC on the other hand has made tremendous contribution to our trade in the country. However, even when the paper considers trade by Zambia in the SADC region to be substantial, there still are more imports than exports.

These problems lead the paper to look at what should be the way forward in the turn of events. Should Zambia in the light of these circumstances go ahead and join the COMESA union being established or it should not. This is what the next chapter looks at and makes relevant recommendations.

# CHAPTER FIVE

## 5.0 WAY FORWARD

As already stated in the previous chapter, trade, where by the value of imports less than the value of exports is the desired type of trade by every nation. This means that such nation has the requisite resources to pay for foreign debts without having to seek recourse to the international lending institutions or enter into other credit arrangements to of set the prior ones.

Meaningful development comes about when a country has enough resources to run its economic and financial and social policies.

As things are now, and using the data for the period 1999 to June 2004[100], it is clear that the trends in international trade show that imports have generally been higher than exports.[101] In fact with regard to the trade within COMESA, the value of imports increased steadily from 1999 to 2002; other than for the year 2003, when there was recorded tremendous increase of about double the 2002 figure. The highest value of imports was recorded in 2003 to the value of K1, 052, 281 million while the lowest was K208, 291 million in 1999. The 1999 imports were fewer than exports while the situation changed for trade in the region thereafter. This increase on expenditure on imports from the region after the year 1999 followed the reduction in the demand for import from the European Union. The plausible explanation, according to CSO, for this could be the reduction of non-tariff barriers within COMESA region for COMESA originating imports. On the other hand, exports for the period were more or less the same; a situation that resulted in trade imbalances.[102]

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[100]. As discussed in the External Trade Statistics Bulletin – 2004, CSO.
[101].Selected Social – Economic indicators 2000 – 2003, CSO, November 2004, p. 38.
[102].External Trade Statistics Bulletin – 2004, p.15.

The economy was experiencing trade surpluses during the period before 1999. Things were no longer the same thereafter as the economy began experiencing the 'worst trade deficits'.[103] In fact, as table 9 will illustrate, the least and highest trade deficit figures of K35, .006 million and K2, 797, 449 million were recorded during between 2000 and 2003. CSO perceives these persistent and perpetual trade imbalances to be as a result of the narrow export-base, limited market access and poor terms of trade. Moreover, the exports are mainly unprocessed or, at the most, semi processed intermediate products such as Non-ferrous metals and there articles, cotton yarn, unroasted coffee and tobacco which products are prone to price fluctuations on the international market when compared to high valued importations of consumption and capital products. In order to bridge up this gap between low export earnings and high import values, the Central Statistical Office suggests that major steps must be made towards processing of materials in order that the final products fetch more on the international markets

1. **Table 9: Summary of External Trade Statistics 1999 –2004 **(K'Million)**

| | **1999** | **2000** | **2001** | **2002 ®** | **2003** | **2004**** |
|---|---|---|---|---|---|---|
| Total Exports ( fob)[E] # | 2,327,900 | 2,716,557 | 3,537,206 | 4,069,916 | 4,626,000 | 3,664,676 |
| Total Imports (cif) [I] | 1,673,816 | 2,751,563 | 3,900,496 | 4,725,224 | 7,423,450 | 4,730,941 |
| Trade Balance | **654,084** | **(35,006)** | **(363,290)** | **(655,307)** | **(2,979,449)** | **(1,066,264)** |
| % Increase in [E] | | 17 | 30 | 15 | 14 | -21 |
| % Increase in [I] | | 64 | 42 | 21 | 57 | -36 |

**Note**: Data for 2004 are up to June; Note the figures in parenthesis ( ) have a negative sign; in total exports [E] # =Domestic Exports *plus* Re-exports.
**Source**: Selected Socio-Economic Indicators 2000 – 2003; CSO.

These trade imbalances resulting from trade within COMESA, though fairly at minimal levels when compared with say SADC, compound Zambia's already existing balance of payments problems.

[103] Ibid p.6

For example the period 2000 to 2003 indicates Zambia's growing problems in balance of payments as shown in table 10 below.

**Table 10: Balance of Payments, 2000 /2003.**

| **Balance of Payment** | **2000** | **2001** | **2002** | **2003*** |
|---|---|---|---|---|
| Overall Balance of Payment (K'Billion) | -1,325 | -1,440 | -1,650 | -1,693 |
| Capital Account (Net) (K'Billion) | 486 | 800 | 1,014 | 1,138 |
| Financial Account (Net) (K'Billion) | 157 | 884 | 83 | 572 |
| Current Account Balance (K'Billion) | -1,981 | -2,737 | -2,808 | -3,223 |

**Note:** *Preliminary
**Source:** Bank of Zambia, as reported in CSO's Selected Social-Economic indicators 2000- 2003, November 2004.

According to the data above the problem of balance of payments grew every year with the overall balance of payments position being a deficit of K1, 325 billion, which increased to K1, 693 billion in the year 2003.[104]

The current position of Zambia's trade in the COMESA FTA seems to suggest that Zambia is not benefiting much from the FTA as she has from trade in the SADC region.

Some have entertained the idea that as Zambia does not benefit much from COMESA as compared to SADC; it should pull out and concentrate only on trade in the Southern Africa Development Community for regional trade.[105]

At this time when Economic and financial trends call for a more united move towards globalisation, it is the view of the writer of the essay that every nation should ensure its economic and financial

[104]. Selected Socio – Economic indicators 2000 – 2003, November 2004

[105] As the public were debating whether Zambia should join the COMESA Customs Union, the media who uses were littered with reports carrying the view of put out. The Head of state was once reported saying Zambia was not yet read for the customs Union(2005);while the CSO Director, Dr Buleti Nsemukila was reported in one of the post papers (2005)Sunday mail saying Zambia was not a beneficiary in COMESA.

and social policies must be such as shall facilitate such a transition. The world is now moving towards being a global village (if not already one). All in all, withdraw from the FTA is not in the interest of the country to benefit from the globalisation. For this reason, the suggested pull out is not a good idea. However keeping such a status quo will entail that Zambia pulls up its socks if it is to benefit from the regional trade. On the other hand, membership to such calls for good faith by each member in the conduct of its trade. For instance, where originating products are given preferential treatment by member states, no member should abuse the preferential treatment by bringing on the market, as originating products, those goods which do not qualify under the rules of origin.[106] Such abuse of the requirement of good faith can bring about loss of business to the genuine competitors in the region.

However, concerning the issue of joining the COMESA customs Union, it is difficult for a country like Zambia to do away, at this time, with any legal means of earning revenue. Right now, Zambia earns quite some substantial revenue from duties or tariffs imposed on imports. For instance, according to table 6 in chapter three, Zambia earned K75, 851, 097, 592.00 in 2002, K196, 087, 056, 671.00 in 2003 and K150, 614, 653, 668.00 in 2004. Clearly, tariffs imposed on imported goods form an important source of revenue for Zambia. Joining the COMESA Customs Union will entail total loss of these revenues which are directly earned from the COMESA FTA. Moreover, much of the revenue on import duty was earned from the SADC member countries that also are in COMESA.

[106] Kenya was once said to trade in cooking oil products that infringed on the rules of origin against which Amanita Zambia brought a complaint

As free internal trade in the Customs Union will expose Zambia's weak industry to fierce competition, and considering that there are no real benefits trading in the COMESA FTA has endured on the Zambian economy, it is not prudent to let Zambia join the COMESA Union as present. She first needs to make her industry efficient and competitive and COMESA should increase its market share of the Zambian exports like SADC or even better. To achieve this, it entails more than just having good policies on economic, financial and social sectors but calls for a development oriented political will to implement these policies. If countries with sound economic and financial policies that are implemented with precision have problems to ensure an up and fluent running economy, it shows exactly how our government must keep alert for the nation to stay alive. It is clear from this analogue that, although important, political will alone is not sufficient. More needs to be done or the nation sinks into oblivion in this ocean of global competition. If up and standing economies risk the danger of being competed out if they, for a moment, treat lightly, the need to be competitive, politicians and government leaders in third world countries like Zambia can not afford to take to take holidays in steering economic development.

Currently Zambia is going towards elections and, in expressing what should be government police on industry, politicians always colour their speeches with good policies which are only meant to win voter confidence. There is rarely any genuine political will to achieve development of industry as propagated in those policies they preach. Moreover, politicians in Zambia do not seem to have any vision for development, either for want of capacity to do so or more often, for the few that have the ability to steer economic development forward, their vision gets consumed by greed and the desire or self enrichment. They no longer hold themselves accounted to the people; cause themselves, in some regimes, to be like Father Christmas. The state funds are run from an individual's pocket. Such a political attitude is not only a danger to the growth and (hence) competitiveness of industry of any country in a trade arrangement like COMESA but also to the social fibre and political security. This seems to mother all the problems relating to why there is a weak industry. The sale of companies was imprudently done; foreign retail companies are given better incentives than the local and producing companies. Tax holidays were offered to firms like Smart Centre, Barnets which incentives were abused as these left as soon as these tax holidays came to an end.

Zambia should therefore, put its house in order to secure the greatest benefits ever possible in the COMESA FTA. After successfully doing so, it can then subscribe to the Customs Union.

## 5.1 RECOMMENDATIONS

This being the way forward, the paper seeks to make the following recommendations:

1. First and foremost, there should be a political will to encourage the industrialisation of the country. Zambia should re-industrialise itself to be able to produce the variety of commodities to be sold within the region. This, the politicians and the government leaders should facilitate or ensure it is done.

2. Zambia should invest in those areas in those areas that would make its products competitive in the region. Doing so will help the country increase its export market share in the COMESA region.
3. Government should make and implement viable economic and financial policies that will encourage the development of a competitive industry in the COMESA region and at the global level.

4. Zambia needs to make efforts towards market diversification to ensure combing up of and reaching any unexploited potential markets within the COMESA region and world over.

5. Zambia needs to ensure value addition to the raw materials exported. Industry should be encouraged in favour of further processing of raw materials. This will not only create employment, but will also improve the export trade profile (as the value of raw materials will be enhanced). This however, in a country like Zambia that needs Foreign Direct Investment (FDI) to improve in this area may find it difficult to go it alone. Hence ;

6. Zambia needs to ensure there is an investor friendly Investment Law regime that seeks to encourage foreign investors to come and invest in the specific areas identified to be useful to trade in the region. However, incentives given in this area should ensure that there is a balance with the need to minimise costs. For this reason, our Investment Law does not provide for technology transfer and transfer pricing[107] should ensure that it addresses these areas to avoid damage to be done.

7. The industry itself must strive to operate efficiently when all necessary tools have been provided by government.

8. When all the above have been improved on, and the results on the net effect of the COMESA FTA's contributions improve, Zambia can then make an informed decision whether or not it will be, at that, time a prudent thing to join the COMESA Customs Union.

[107] Mwenda K.K, Contemporary Issues in Corporate Finance and Investment Law, 2000, pp 14 - 30

## 5.2. *CONCLUSION*

While the COMESA Customs Union would work for the benefits of member countries by the removal of all barriers to trade with regard to goods and services, it is important to note, also, that this has its own dangers. Producing countries will each need to ensure that there industry is effective, efficient and productive, if they are to survive the fierce competition from those that operate efficiently and competitively. There is also the danger of failure by a country whose industry cannot compete, to make up for the loss of revenue from tariffs that are normally imposed in the case of an FTA when such a country joins the COMESA Union. The problem is further compounded in the case of a country whose industrial base leaves much to be desired. This, unfortunately, is the case with Zambia. There is seldomly a vibrant or at least a reliable industrial base to deliver home any meaningful competition in the COMESA FTA with comparatively any well established industry like that of Kenya.

For this reason, Zambia needs first to put its house in order and ensure meaningful benefits in trade from within the COMESA by way of the recommendations put above. Once this is done, steps may be made by the country to join the COMESA Customs Union. Otherwise, the move to do so in the current state may be dangerous to the already fragile Zambia industry. The fierce competition from the competitive products by other nations in the region may wipe out those industries involved in the production of similar products. Suffice also to say that it would also be taking away the requisite revenue from the import duty without making any provision for other ways of making up for such foregone revenue, as the sales to COMESA FTA, so far leave much to be desired. There are more disadvantages of Zambia going into the COMESA Custom Union than are advantages for now. Zambia may still keep its place in the COMESA FTA and ensure developing a vibrant, efficient and competitive industrial base.

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