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**Zambia's CSO Response to the Outcomes on GATS/Services and  
Implications for Poverty Reduction.**

By

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**1.0 Background to the World Trade Organisation**

Since the end of the Second World War in 1945, the world has had one multilateral agreement concerned with global trade rule making<sup>1</sup>. This is the General Agreement on Tariffs and Trade (GATT), established in 1947. It was concerned mainly with trade in goods. The GATT was an agreement to reduce tariffs on goods through negotiations. This was done through trade rounds. There were eight such rounds including the Uruguay Round that took place between 1986 and 1993. These rounds lead to substantial reduction in tariffs on goods especially in the trade among the developed countries such that over time tariffs were not a major barrier to trade.

The substantial reduction in tariffs lead to non-tariff barriers increasingly becoming an important barrier to trade. Furthermore, with advances in technology, the global economy was completely transformed by the end of the 80s. The supply of services became increasingly important in the domestic economy and in world trade. Services were the fastest growing sector of the world economy. Services trade and foreign direct investment in services were growing faster than in goods.

The growing importance of global services trade created a need to search ways to bring the new phenomena of trade in services under a multilateral discipline. It therefore became part of the negotiations under the Uruguay Round. In the conclusions to the Uruguay Round, it was decided to bring the trade in services under the discipline of a multilateral framework. The Agreement is called General Agreement in Trade in Services (GATS). There were three major agreements concluded at the end of the Uruguay Round. These were GATT 1994, GATS and Trade Related Intellectual Property Rights (TRIPS). Out of these three, GATS and TRIPS have been very controversial. There was a long drawn out debate on whether to bring services trade under a multilateral framework or not. Many developing countries were initially totally opposed to the idea. Developing countries feared that they had no or little services capacity to trade and hence would essentially be forced to open up their services sectors to Foreign Service suppliers.

<sup>1</sup>background draws on the work of Ndulo M. (2003): The Multilateral Negotiations in Services Trade and their Relevance to Zambia. University of Zambia

This would put services provision out of reach of the majority of their people. They eventually gave in. The agreement came into effect in January 1, 1995. The agreement has now been accepted as part of the multilateral framework of trade rules. Zambia is part of this agreement.

The GATS covers substantially all services sectors. It establishes a common framework of basic rules, initiates a liberalization process and set up a dispute settlement mechanism. But opening up under GATS is by conscious decision of the individual member country. Each Member is allowed to bind specific commitments and put limitations on liberalization<sup>2</sup>. It is important to realize that liberalization under GATS is done in terms of making specific commitments in various service sectors in terms of **Market Access**, **National Treatment** and any other additional commitments. The Market Access and National Treatment commitments are negotiated and thereafter bound. The four modes of supplying service as outlined in the WTO are: (i) supply of service from one country to another country (cross border supply); (ii) supply of service from one country to the consumer of another country (consumption abroad); (iii) supply of service by a supplier of one country through commercial presence in another country (commercial presence) and (iv) supply of service by a supplier of one country through the presence of natural persons of one country in another country (presence of natural persons).

WTO Member countries can claim compensation for the violation of the commitments by a trading partner. The GATS framework allows the country to take account of its national objectives and the level of development in the negotiations. Furthermore, as a least developed country, Zambia, does not need to open up any service sector if that is in its national interest and relevant to its development objectives.

## 2.0 Relevance of Services Trade to Zambia

The current situation is that Zambia has no national policy on the services sector<sup>3</sup>. This is why it is difficult for Zambia to come up with a Negotiation Proposal under the current services negotiations under way at WTO.

Some of the problems Zambia experiences in the discussions of GATS and WTO have to do with the lack of information and awareness of the negotiations on services in the WTO. The bad experience of trade reform and privatization and the limited capacity to identify the national export interest are additional factors.

To talk about the relevance of GATS to Zambia is also to talk about how important services trade is in the Zambia n economy. The capacity of the domestic services sector plays an important role in the process of growth and development. The services sector contributes significantly to the creation of employment opportunities, foreign exchange earnings. Most importantly services trade, through the reduction of the cost of production, such as communications, energy, transport and financial services, increases the competitiveness of the country's merchandise and services exports. Thus, an efficiently run and organized domestic services sector can be used to make Zambia produce efficiently and thus expand consumer welfare and overall export earnings.

In Zambia, the domestic services sector contributes about 60 per cent of value-added to real GDP; real services sector growth is double that of real GDP growth. It contributes about 63 per cent of formal sector employment and contributes very little to export earnings. Furthermore, it is high cost and inefficiently organized.

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<sup>2</sup> Liberalization under GATS is not the same as autonomous liberalization and liberalization under the IMF and World Bank structural adjustment programmes.

<sup>3</sup> The Draft National Industrial, Commercial and Trade Policy is silent on Services Trade.

Zambia can use the current services trade negotiations and the GATS framework to its advantage and promote its development needs. Given that GATS is part of the multilateral framework for trade, Zambia has to stand-up and strive to make use of it to full advantage. The challenge of the Zambian policy makers is to articulate and make full use of the developmental aspects of GATS such as Articles XIX.2, IV and V. Article XIX.2 mandates the liberalization process to be consciously organized and to respect the national policy objectives and the level of development of individual Members in the negotiation process. Article IV is about the increasing participation of developing countries and Article V is about regional integration.

### **3.0 The Current State of Play in the Negotiations on Trade in Services**

The current negotiations on trade in services are mandated under Article XIX of the GATS. The work started in earnest in Geneva in January 2000. The initial work was to set up Guidelines and Procedures for the negotiations. This was done in March 2001. The Fourth Ministerial Conference held in Doha, Qatar agreed to continue with the work on services trade negotiations already underway in Geneva (WTO, 2001). The Fourth Ministerial also set a time frame for the current negotiations in Services Trade. These were as follows:

1. The deadline for the submission of initial requests was June 30, 2002
2. The deadline for submission of initial offers was March 31, 2003
3. The conclusion of the services trade negotiations is not later than January 1, 2005.

There were also certain key understandings to the negotiations. The major ones are that:

1. Negotiations on Safeguards under Article X shall be completed by March 15, 2002
2. The Assessment of Trade in Services should be carried out before the actual negotiations take place.
3. There will be credit for autonomous liberalization.

In terms of deadlines, Developed Countries have been very active in the process. Many Developed Countries made Negotiating Proposals and made Initial Requests in time. Nearly all sectors have been covered by the Initial Requests. Some countries have made general requests; others have made specific requests.

Few African countries have made Initial Requests. Nearly all have failed to meet the June 30 2002 deadline for Initial Requests. Many countries are at pains on how to proceed about the process. This is mainly because of the lack of a formal structure at the national level to go about negotiations on services. This is a common problem for all WTO Members. Issues and Policy on services trade is interdisciplinary involving several ministries and stakeholders. A formal structure has to be organized at the national level that is different from the traditional structure of running government.

Zambia did not make Initial Requests. It has, however, received Initial Requests from five WTO Member countries. These are Mauritius, Egypt, USA, Japan and the European Union. Nevertheless, Zambia can still go ahead and formulate offers.

The services trade negotiations have now moved into bilateral negotiations. Bilateral consultations on the requests for Market Access began in July 2002. The Developed countries will certainly lead the process as few developing countries, like Zambia, have identified their specific sectoral and modal interests, the barriers to their services exports and the impact of requests from developed countries on their services sectors. The bilateral stage of negotiations is very demanding and African countries have little power and capacity. The evaluation of requests and formulation of their own requests and offers is likely to be a particularly complex task. Zambia needs to determine national policy objectives and the status of competitiveness

of each sector. Zambia, further needs to sequence the liberalization and determine the capacity of domestic service firms, among other things.

The deadline for the negotiations on Safeguards was March 15, 2002. This was not met and progress has been little. Disappointment has been expressed by developing countries at the lack of consensus on the negotiations on Emergency Safeguard Measures. Developing countries feel strongly that without such a mechanism their ability or willingness to make concessions would be limited. The WTO members agreed to delay a decision on whether or not to establish an Emergency Safeguard Mechanism for trade in services.

Disagreement has continued on how to handle the Assessment for Trade in Services. There seems to be an understanding that Assessment of Trade in Services can take place concurrently with the Doha program in services trade negotiations. Some Developing countries have put forward proposals. A number of themes have emerged from the developing country submissions. These are as follows:

1. the unique situation in each country will dictate the pace and the path of liberalization most suitable to the circumstances
2. government should have flexibility in redressing the problems that they had not anticipated when undertaking liberalization commitments
3. Benefits from privatization and liberalization are not automatic without appropriate preconditions including appropriate regulatory framework, entrepreneurial and technological capacity building and complimentary policies.
4. Liberalization entails adjustment costs and priority attention should be given to ensuring access to universal and essential services.

As regards Modalities for Credit for Autonomous Liberalization, there has been no consensus on how to credit autonomous services liberalization in the current negotiations. One of the major issues is whether all WTO Members or only Developing countries would be entitled to such credits.

Overall the negotiations in trade in services have not moved as fast as had been initially anticipated. Most of the deadlines have not been met.

Zambia's position in these negotiations have been to support the common position of the like-minded stakeholders, the African group, SADC, COMESA, and the Group of Least Developed Countries. This is necessary because whatever position Zambia has can only be effective if it is synchronized with a common position of a larger grouping.

On the sectoral negotiations, Zambia might want to work on the intermediate services sectors such as telecommunications, finance, transport and energy. In terms of modal interest Zambia might want to work on commercial presence and the movement of natural persons. The movement of natural persons will be discussed in some detail later.

#### **4.0     Zambian CSO Demands on Trade in Services**

Prior to the Hong Kong WTO Ministerial Meeting, Zambian civil society organizations met and came up with key demands on various issues. These demands were presented to the Ministry of Commerce Trade and Industry. Regarding trade in services, the key demands were as follows:

As a preamble, the Zambian CSOs stated that unlike goods, services are often intangible, invisible, and perishable requiring simultaneous production and consumption thereby requiring proximity between the user and the provider. In Zambia, the Services sector contributes about two thirds of the GDP and employs over 60% of the labour force. Thus services provide the backbone for all national economic and social development. For many years now Zambia has

been a net importer of services. In the MTS the WTO's General Agreement on Trade in Services (GATS) provides for countries to decide whether or not to liberalize any of their services, which services to liberalize and the extent and pace of the liberalization. Despite this provision, the LDCs are currently under great bilateral and multilateral pressure to provide 'offers' in response to 'requests' made on them. Liberalizing services further is likely to impact negatively on governments' development policy as well as peoples' access to services like education, water and sanitation, financial and health. Considering the sensitive nature of trade in services the following demands were made:

1. *LDCs must not accede to the requests/ pressures from developed countries to further liberalize or open up the sensitive services sectors such as utilities, energy, water and sanitation etc. to foreign ownership private. Thus we demand that Zambia and other LDCs must not proceed with the offers and requests through the bilateral and multilateral process until impact assessments of liberalizing such sectors are undertaken. The WTO must increase funding to the LDCs to enable them study the potential impacts of liberalizing the service sectors. In this regard, no new approaches to GATS negotiations that undermine the already agreed to principles of flexibility must accepted/ be introduced.*
2. *We demand that LDCs be given their right to regulate services and liberalize according to their national development policy priorities.*
3. *Under the GATS mode-4, i.e., the trade in services based on the movement of natural persons developed members of WTO must heed to the demands of LDCs concerning the following:*
  - i) *Developed countries must ensure mutual recognition of professional workers that move to developed countries must receive national treatment in the host countries. In this regard, standard criteria of classifying skills must be adopted. Technical entry barriers of natural persons in the guise of Economic Needs Tests and natural security must be removed.*
  - ii) *Developed countries must grant LDCs full market access and national treatment in the export of less-skilled and non professional services providers on a temporary and contractual basis in sectors of export interest to them.*

The most practical way Zambia can benefit from trade in services is through mode 4. The next sections look more closely at this mode of trade in services.

#### *5.0 Historical Perspective to Movement of Natural Persons in Africa.*

It is difficult to find adequate data for migration in general. Census data can give some indications about historical movements of people. This data is, however, difficult and expensive to generate. Additionally, they are just 'snapshots' at a certain point in time, and thus often outdated<sup>4</sup>. Other sources to use in the analysis of migratory movements can be statistics of cross-border movements, which are relatively easily available for 'developed' countries, but ignore informal cross-border movement.

In the African context, movement is often not accounted for and data can only give a rough image of ongoing processes. The recording of inward and outward movements of people across borders in some countries cannot be comprehensive because of the extent of their land borders with other countries. Such movements are acknowledged and there is tacit acceptance that informal or traditional movement of peoples across borders cannot be effectively controlled.

There is plenty of evidence on increasing temporary migration within countries and regions. Generally speaking, poorer people are travelling shorter distances. Given the often prevailing

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<sup>4</sup> For details see: Overseas Development Institute. (2006): A Study on Temporary Movement of Natural Persons: Zambia. *Draft Report*. Report to the Ministry of Commerce, Trade and Industry, Zambia

kinship linkages across borders in Africa, this predominantly internal migration will also reach across borders. Southern Africa, on the other hand, has predominantly seen contract labour for the mining industry (both to South Africa and – more recently – increasingly to Botswana). Until the 1990s, South Africa pursued an active recruitment policy in neighbouring countries, which also resulted in cross-border movement for family reasons. Migrants are mostly originating from Zimbabwe, Lesotho, and Mozambique, and to a lesser extent from Zambia. These broad trends conceal more differentiated developments, for instance a shift towards Mozambican labour.

### *5.1 Gender and Migration*

Migration during colonial times and in the early years of independence was mostly male migration in search of employment. Female migration was often not encouraged or was even prohibited in colonial times. However, women have migrated and are migrating, both as spouses of male migrant workers or as migrant workers in their own right.

### *5.2 Migration and HIV/AIDS*

Movement of natural persons is not risk free. One of the social risks associated with temporary or circular migration is the spread of transmittable diseases, not least HIV/AIDS and not least so in Southern Africa. The highest infection rates for HIV/AIDS in Africa tend to be linked to migratory behaviour. Particularly high infection rates are to be found 'in countries such as South Africa and Botswana, which have good transport infrastructure, relatively high levels of economic development, and considerable internal and cross-border migration.

### *6.0 Effects of migration on development*

The linkage between the movement of natural persons and development is complex. The brain drain argument may be employed for the case of migration between developing and neighbouring countries. Migration to developed countries represents a much higher loss of skilled labour to the sending developing country. The loss may be offset by the effects of remittances. Costs of travel to developed countries are high. The benefits of migration to Europe might be offset by higher income expectations. There are problems of travelling to developed countries. Time consuming and highly uncertain procedures mean that once obtained the (single) entry to the EU, risks of application for a re-entry are such as to effectively hinder circular migration.

### *6.1 Temporary Migration and Development*

The temporary movement of natural persons (also called mode 4 migration) has become an important issue for developing countries. This is mainly because it is by definition labour intensive. Developing countries thus should have a comparative advantage in supply. It has been estimated that increased developed country quotas on both skilled and unskilled temporary workers would increase world welfare by an estimated US\$156 billion (0.6% of current global income). Of this, Africa would gain by around US\$14 billion<sup>5</sup>.

Even though positive effects may exist in the long-term, in the short-term it has proved difficult to empirically identify 'transmission mechanisms' by which international migration promotes economic development. Positively, migration contributes to flows of remittances which may be a significant component of GDP. Negatively, it is generally the younger, higher skilled and more dynamic workers who tend to migrate. However, models used to estimate the effects of migration may fail to capture important aspects related to mode 4 under the GATS. In particular, the GATS applies only to *temporary* movement of natural persons and on a sector-by-sector basis i.e. mode 4 suppliers tend to be mobile between countries but not

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<sup>5</sup> ibd

between sectors.

Countries which export labour risk of loss of domestic skills and expertise and the transfer of educational investment from developing to developed countries. This problem, associated with brain drain, is particularly relevant for (permanent) migration. The distinction between temporary and long-term movements is not always clear. Countries experiencing a persistent outflow of temporary labour movements suffer similar reductions in their skill base to those countries with migratory outflows. The majority of migrants from developing countries are much better educated than the rest of the population of their countries of origin. This may be partly explained by the immigration policies of developed countries which favour skilled workers. In addition to this, the fact that it is easier for better educated and thus higher paid labour to cover the costs of movement (or migration) is cardinal. A more detailed assessment would need to include whether those working abroad would have found employment at home. This is important because labour movement may reflect a lack of opportunities in the exporting country. It is also important to assess whether the exporting country's 'loss' of skills could be offset by the experience gained abroad which would be to the country's benefit when the worker returned. Temporary labour movements also present another advantage over migration with respect to remittances which have been found to be higher in the case of the former<sup>6</sup>.

Through mode 4, skills and knowledge embodied in foreign labour may be accessed at lower than the cost of similar labour sourced domestically. Imports of labour can, therefore, be used to overcome skills shortages in specific sectors of the economy as a whole and promote economic growth. On the other hand, importing countries have used their regulatory regimes to ensure that foreign labour receives similar wages and working conditions to domestic labour.

#### *7.0 Major Challenges in Policy Responses to Migration*

International responses to the movement of natural persons vary extensively over time and across countries. Most measures are aimed at restricting international migration. Only a few countries actively encourage the temporary movement of natural persons. Policies are mainly directed at reducing the number of immigrants. Control of the territory is considered to be one of the key features of independent states. This has meant a strong emphasis on national policy on visa, immigration, residence permits or work permits. Policy responses to migratory movements differ widely.

Developed and developing countries have a range of instruments to address migration from a governance perspective. The European Union (EU), as one major migrant receiving area in the 'developed world' is still struggling for a common migration policy. While some migrant receiving countries, e.g. Germany, try to regulate the flows strictly for both skilled ('greencard') and unskilled labour (temporary seasonal workers in agriculture), other European countries (e.g. Spain) have demand for unskilled labour which thus far has been fed by unregistered migration.

#### *8.0 Some Barriers to mode 4*

Some services trade is already occurring through mode 4. Global estimates suggest that mode 4 trade was in the order of US\$50 billion in 2000, or approximately 1% of total trade in services. The US issued 137,000 visas in 2000, generating US \$ 6.5 billion of mode 4 trade. The UK issued 65,000 (non-EU) work permits generating US \$ 2.5 billion of mode 4 trade<sup>7</sup>.

However, mode 4 trade remains limited because of restrictions. Barriers to mode 4 are similar across countries and can be categorised as follows:

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<sup>6</sup> ibd

<sup>7</sup> For details see ODI study. Care should, however, be taken on whether these figures are indeed temporary migration as defined under GATS.

- *Visa procedures*: The main restriction on movement of natural persons originates in the immigration and labour market policies of individual countries.
- *Quotas*: Quantitative restrictions on foreign services providers may be imposed explicitly or take the form of economic, local market and management needs tests which require a prior search for national services providers.
- *Wage parity conditions*: These mandate that wages paid to foreign workers be similar to those paid to national workers.
- *Discriminatory treatment*: Mode 4 is also constrained by policies that discriminate against foreign services providers. Residency or citizenship conditions are frequently imposed as conditions for work, putting foreign services providers at a disadvantage.

#### 9.0 The negotiating environment for mode 4

The Uruguay Round produced only modest commitments for mode 4 under the GATS. The current environment in the GATS 2000 negotiations appears more favourable. During the Uruguay Round, mode 4 became a developing country issue. Many members envisioned a balance of concessions between developing countries making commitments in mode 3 and developed countries making commitments on mode 4. Developed countries feared the worst from such a result, requiring concessions at lower skill levels of workers that they knew were not politically acceptable. But the limited commitments made for mode 4 cannot be attributed to this alone. During the Uruguay Round, the private sector succeeded in securing broad and deep commitments for mode 3 but failed to influence their national governments on the importance of mode 4<sup>8</sup>.

In addition, as globalisation continues, firms increasingly find that they need to send personnel abroad on a short-term basis to meet specific project and contractual requirements. Visa procedures can delay the entry of personnel. The result has been that the United States Coalition of Services Industries and the European Services Forum have suggested that mode 4 commitments by all countries be deepened to facilitate the temporary movement of professional workers.

In the GATS 2000 negotiations, a number of members presented proposals that indicate their interests in further liberalising mode 4

#### 10.0 Plurilateral negotiations and Post-Hong Kong Negotiations

The services negotiations were controversial in the run-up to and during Hong Kong. One question was whether there should be quantitative requirements for the number of services sectors which countries should liberalise. This is what the EU wanted. All other members opposed this, as did the private sector in the EU. The Hong Kong declaration did not mention numbers.

Another question related to whether plurilateral negotiations among some members should take place with any opening extended to other members. Services were the only area where individual countries (Cuba and Venezuela) expressed formal reservations about the final text. The Hong Kong Ministerial text on services was as follows:

*'The negotiations on trade in services shall proceed to their conclusion with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries, and with due respect for the right of members to regulate.*

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<sup>8</sup> Two exceptions were the Indian National Association of Software and Services Companies (NASSCOM) which effectively persuaded countries to make commitments under the GATS on temporary movement affecting software engineers; and in the US a diverse lobby succeeded in influencing the US to bind visa provision covering temporary employment of highly skilled foreign workers in US firms.



*In this regard, we recall and reaffirm the objectives and principles stipulated in the GATS, the Doha Ministerial Declaration, the Guidelines and Procedures for the Negotiations on Trade in Services adopted by the Special Session of the Council for Trade in Services on 28 March 2001 and the Modalities for the Special Treatment for Least-Developed Country members in the Negotiations on Trade in Services adopted on 3 September 2003, as well as Annex C of the Decision adopted by the General Council on 1 August 2004.'*  
Hong-Kong ministerial outcome Article 25.

The first, post Hong Kong deadline of 28 February 2006 has passed for the submission of plurilateral requests in appendix C of the ministerial text. Article C7 states *'In addition to bilateral negotiations, we agree that the request-offer negotiations should also be pursued on a plurilateral basis in accordance with the principles of the GATS and the Guidelines and Procedures for the Negotiations on Trade in Services.'* The timeline for this is as follows:

- a) any outstanding initial offers shall be submitted as soon as possible
- b) groups of members presenting plurilateral requests to other members should submit such requests by 28 February 2006 or as soon as possible thereafter
- c) a second round of revised offers shall be submitted by 31 July 2006
- d) final draft schedules of commitments shall be submitted by 31 October 2006.

However, a significant amount of flexibility is allowed for developing and LDC members (and small economies). The appendix also calls for targeted technical assistance. LDCs are exempted from having to *respond* to any plurilateral requests that would be put to them. It is, however, contrary to the spirit of special and differential treatment (SDT) provisions to exempt LDCs from making requests to other countries. Zambia and the LDC might be interested in participating more actively in current plurilateral services negotiations as a way of getting concessions on mode 4. This would help in reducing poverty in Zambia and other LDCs.

#### *11.0 Poverty and Services Trade in Zambia*

Poverty in Zambia, like elsewhere, is multi-dimensional and it is due to complex factors, both personal and societal. Rural poverty is largely attributed to poorly functioning markets for agricultural output and to low agricultural productivity because of reliance on very basic implements as well as low utilisation of agricultural inputs. The majority of the rural and urban poor earn livelihoods from small-scale agriculture and a variety of informal income-generating activities that tend to be short-term, seasonal, and poorly rewarding, a phenomenon that has generally resulted in severe food insecurity and the attendant high prevalence levels of malnutrition among both children and adults<sup>9</sup>.

Most fundamentally, however, the failure of Zambia's economy over the past thirty years, evidenced by a per capita Gross Domestic Product (GDP) that is only a fraction of the level at independence, has had the most telling effect on poverty in the country. Mining, the driving force in the Zambian economy, declined for a long time, pulling down other sectors that depend on it. No major substitutes from other economic sectors came on stream. This has resulted in reduction in gainful employment and in failure by the state to provide basic services like education, health, and water it provided so well in the past. In the 1990s, the HIV/AIDS pandemic and other diseases have worsened the poverty situation. At the time when resources were already low, HIV/AIDS has increased the disease burden beyond the individual level to adversely impact on the economics of the family, the health system, the working environment as well as human capital and many others.

Table 1: Overall and extreme poverty in Zambia, in rural and urban areas, 1991-1998

Year	Zambia		Rural		Urban	
	Overall poverty	Extreme poverty	Overall poverty	Extreme poverty	Overall poverty	Extreme poverty
1991	69.7	58.2	88.0	80.6	48.6	32.3
1993	73.8	60.6	92.2	83.5	44.9	24.4
1996	69.2	53.2	82.8	68.4	46.0	27.3
1998	72.9	57.9	83.1	70.9	56.0	36.2

Source: CSO: *Living Conditions in Zambia 1998; The Evolution of Poverty in Zambia 1990-1996*. See also *PRSP Zambia*.

The solution to the poverty situation, according to the Zambian PRSP, is to revive a private sector driven economy and create employment and targeting key sectors such as agriculture, tourism and mining. Trade in services (mode 4) can be included to this list.

The ODI study mentioned earlier states that mining and quarrying contributes around 3% to Zambia's GDP. Metal products, primarily copper and cobalt, account for two-thirds of Zambia's merchandise export earnings. Agriculture, forestry and fishing account for 21% of GDP and over 70% of employment. The manufacturing sector is 11% of employment creation and 11% of GDP. The services sector, meanwhile, provides the bulk of non-agricultural employment (19% of total employment) in Zambia and accounts for 60% of GDP.

The composition of Zambia's economy has changed dramatically over the past decade, as mining has fallen from being the largest sector in the economy. Mining's share of GDP has dropped from 50% after independence to around 14% in 1995 to about 3% today. It has recently shown signs of recovery, following the privatisation of Zambia Consolidated Copper Mines (ZCCM). The privatization has facilitated an increase in the production of copper and cobalt and improvements in mining technology. This has resulted expanding the life of many mines and their potential copper and cobalt output. The benefit of higher world prices for these commodities has brightened prospects for the Zambian economy.

Agriculture is one of the main drivers of growth in the economy, particularly for maize and cash crops for export (tobacco, groundnuts and cotton). From 1995 to 2002, the share of agricultural exports in total exports increased from 19% to 29%. The services sector has also contributed to growth. The structural reforms of the early 1990s have allowed wholesale and retail services to become one of the main sectors in the Zambian economy. These contribute almost 1% of GDP growth per year since 1995. The construction sector has also boomed since 2001, due to increased investment and the revival of the mining sector. In tourism, infrastructure improvements and the upgrading of the Livingstone airport is attracting more visitors.

### 11.1 Services Trade

Zambia is a net importer of services, with increasing deficits on the services account. This is mainly due to high transportation costs associated with its status as a landlocked country. Tourism constitutes the main component of services exports, though its potential remains undeveloped. Nevertheless, the recent construction of world-class accommodation, the refurbishment of airports and the diversification of tourism products are increasing the number of tourist arrivals in Zambia. Given that the tourism sector in Zambia is often based in rural areas and relatively labour intensive, its development and expansion will contribute directly to poverty reduction through increased employment and increased demand for agricultural products.

<sup>9</sup> For details see Zambia Poverty Reduction Strategy paper (2000).

Table 2: Zambia imports and exports of merchandise and services 1997-2003 (US\$ millions)

	<i>Merchandise exports</i>	<i>Services exports</i>	<i>Merchandise imports</i>	<i>Services imports</i>	<i>Services exports Total exports</i>	<i>Services imports Total imports</i>
1980	1299	152	1112	651	10%	37%
1981	651	153	855	584	19%	41%
1982	958	122	999	409	11%	29%
1983	836	99	709	334	11%	32%
1984	661	75	599	291	10%	33%
1985	478	68	678	254	12%	27%
1986	656	47	577	199	7%	26%
1987	710	48	696	223	6%	24%
1988	871	58	880	289	6%	25%
1989	663	85	1275	444	11%	26%
1990	544	107	1218	386	16%	24%
1991	1077	83	810	363	7%	31%
1997	1110	112	1056	282	9%	21%
1998	818	102	971	282	11%	23%
1999	772	107	870	306	12%	26%
2000	757	114	978	340	13%	26%
2001	980	143	1080	372	13%	26%

Source: IMF (2005a); IMF (2005b). Note: Data unavailable for 1992-1996 as reported in the ODI study.

Zambia's largest services export is (freight) transportation followed by (personal) travel services and its largest services imports are (freight and passenger) transportation services.

The health sector has generated heated debate in Zambia over the last few years. This is mainly because many health personnel has left the country for "greener pastures" abroad. The main reason for leaving is poor conditions of service in the health sector in Zambia.

The number of Zambian registered and enrolled nurses requesting verifications from the General Nursing Council has increased from around 100 in the 1990s to 300-600 in the past five years. The top destination countries include the UK (around 200), South Africa, Botswana, New Zealand, the US, and Australia.

#### *Zambian Mode 4 requests in GATS*

Paragraph 9 of appendix C on services, of the Hong Kong ministerial, states that:

*'Members, in the course of negotiations, shall develop methods for the full and effective implementation of the LDC Modalities, including expeditiously:*

- (i) Developing appropriate mechanisms for according special priority including to sectors and modes of supply of interest to LDCs in accordance with Article IV:3 of the GATS and Paragraph 7 of the LDC Modalities.*
- (ii) Undertaking commitments, to the extent possible, in such sectors and modes of supply identified, or to be identified, by LDCs that represent*

*priority in their development policies in accordance with Paragraphs 6 and 9 of the LDC Modalities.'*

Given the interest and importance of mode 4 commitments by other WTO members, this paragraph does provide a basis on which Zambia can form a request to developed countries in mode 4.

## **12.0 Conclusions and Recommendations**

### **12.1 Conclusions**

The above analysis leads to the following conclusions:

- a) Zambia is an active member of the WTO but is experiencing difficulties in the WTO negotiations generally and the services negotiations in particular because of lack of an effective trade policy covering all areas of trade negotiations as well as human and financial constraints.
- b) Services trade, nationally, regionally and internationally, is becoming an increasingly important sector in Zambia requiring serious attention from policy makers
- c) The Zambian government, private sector and civil society organizations are becoming aware of the need to take the trade negotiations in the WTO and the services negotiations seriously as evidenced by the broad range of stakeholders participating in trade for a.
- d) There are some critical structural impediments to Zambia's ability to fully engage in the trade in services negotiations as services transcends many government ministries
- e) There are risks and opportunities in trade in services which need careful analysis.
- f) The above analysis suggests that there is a paucity of data on trade in services generally and migrant remittances in particular in Zambia.
- g) There are very high poverty levels in Zambia that require serious attention from policy makers.

### **12.2 Recommendations**

The above analysis leads to the following practical recommendations for services trade negotiations in Zambia:

- i) Zambia should quickly develop a trade policy encompassing all relevant areas of trade including trade in services
- ii) Zambia should, as a matter of urgency, establish a "Globalisation Directorate" in the Office of the President to spearhead complex multi- institutional arrangements such as services and financial arrangements.
- iii) Zambia should make requests to developed countries for mode 4 to enable the country benefit from services trade as a way of reducing poverty.
- iv) Zambian Civil Society should build capacity to assist the government in trade negotiations generally and services negotiations specifically.
- v) Zambia should carry out an impact study of the potential impact of further liberalization in services and develop appropriate safeguard measures.
- vi) Zambia should develop a mechanism for capturing data on trade in services generally and migrant remittances in particular.

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