



## 4 ~ A Development Strategy for Zambia

### 4.1 Introduction

Zambia is a small open economy, and dependent on the export of a primary commodity, copper, whose price has been unstable and in decline until recently. In the 1980s this made the country dependent on external borrowing to alleviate its balance of payments difficulties, and subsequently even more dependent to service that debt. The burden of debt service was and remains the most important contributor to macroeconomic instability, sustained growth and poverty reduction.

The immediate post independence years, 1964-1968, were characterised by excess of foreign exchange. During this period growth was constrained by lack of skilled workers, so that Zambia was unable to productively absorb its export earnings (see also Mkandawire 1994). This is followed by the foreign exchange constrained period, 1969-1984, when increased government investment, intended to diversify the economy, resulted in an import dependent manufacturing sector.

This import dependence and a decline in copper prices led to a chronic shortage of foreign exchange, and hence growth was

constrained. The binding foreign exchange constraint persisted in to the 2000s.

The primary cause of the persistent constraint was the collapse of the copper prices, and an inappropriate policy framework in the 1990s that made the constraint stronger. The adjustment measures to address these problems aggravated them. These pressures were based on the view that Zambia's foreign exchange constraint arose from policy-induced distortions, when the causes were of a structural nature that created obstacles to the effective operation of product and factor markets. The fundamental constraints included: (a) the dominant role of copper and the collapse of its price internationally; (b) a weak skill base at independence; (c) excessive optimism that led to the anticipation of a reversal in copper prices, and the mounting indebtedness that resulted from that unrealised reversal; (d) and an uncontrollable fiscal deficit also resulting from the fall in the copper price (Mkandawire 1994).

With copper no longer dominating the economic to the extent it did in the past and the skill shortage reduced by the disastrous fall in employment in mining and manufac-

4 turing, the fiscal deficit asserted its primacy as the binding constraint in the 2000s. In other words, if the foreign exchange constraint were somehow relieved, perhaps by rapid rejuvenation of the copper price as the government hopes, the fiscal constraint would have been binding. Both the foreign exchange and the fiscal constraint arose from the same source, the fall in the copper price. The need to diversify the economy remains as great in the 2000s as it had twenty and thirty years earlier. Indeed, were the predictions of a rapid recovery in mining to be realised, Zambia would come full circle in its decline: from a middle income country excessively dependent on copper to a low income country excessively dependent on copper.

This section suggests an approach for a pro-poor growth and development strategy. The chapter does not intend to provide a detailed sectoral policy analysis and recommendations. Instead, we do so with reference to the agricultural sector, which has recently been singled out as a key driver of growth and development in Zambia. A more detailed analysis of the manufacturing and services sector is called for, given its future strategic importance, as argued here, but it is beyond the scope of this study.

#### 4.2 A Growth and Development Strategy for Zambia

The discussion of a growth strategy for Zambia, and for any country, must be based on the principle that the full participation of both women and men in the development process is essential. Emphasis must be given to policies that enhance women's access to the means of production, especially land, and their participation in employment and income generating activities (GRZ, 2002b). For this reason, a gender-differentiated assessment of programmes is important for the success of a development strategy for Zambia. We regret that the information to make such an assessment is largely absent. Therefore, a high priority for

the government should be to collect systematically the information that would show the gender-differentiated gains and losses in the development process.

To the extent there was a formulation of development policy in the 1990s, agriculture was been singled out as a key sector, coinciding with the deepening of the crisis of the adjustment years. Few would deny that policies to foster an internationally competitive agricultural sector would be one part of a strategy for sustainable growth and poverty reduction in Zambia, but not the keystone of that strategy. Similarly, the rejuvenation of the mining sector during the 2000s indicated that mining could play a major contributing role to a sustainable growth strategy; however, as with agriculture, mining would not be the central element of that strategy. In this the section, the basis of these judgements are explained, and an integrated strategy proposed.

The objective of the government is a sustainable and rapid growth rate that maximises poverty reduction; that is, sustainable growth for which the elasticity of poverty reduction with respect to growth is high. Sustainability can be considered as the necessary condition for both, rapid growth rates over time and similarly rapid poverty reduction. Over more than forty years the growth of the Zambian economy was neither rapid nor sustained. As demonstrated in previous chapters the non-sustainable nature of growth derived directly from the instability of the international copper market. Copper was not unique in this regard, and the experience of other sub-Saharan countries shows that the diversification of mineral exports, anticipated with the emergence of precious gem production, would not generate stable and sustained growth. On the contrary, should Zambia return to an economic structure in which mineral production is the driver of growth, the result would be a return to the similar structural imbalances that generated the imbalances of the 1960-1990 period that fostered a crushing debt burden. Therefore,

if the mineral sector exhibits the boom some predicted for the future, it should be welcomed as a source of foreign exchange and public revenue. However, it should be integrated into a growth strategy in which it plays a supporting, not a leading role.

Assessing the future role of agriculture requires clarity on the fundamental characteristics of the economy and society of Zambia. As a result of the long decline of the economy during 1970-1999, the per capita income of Zambia dropped into the World Bank's low income category. However, at the beginning of the twenty-first century, Zambia's economic and social structure differed substantially from that of the representative low income country. In the 1990s and early 2000s, Zambia retained many of the labour force characteristics of its earlier middle income status.<sup>69</sup>

While there are countries with middle income labour force characteristics that have large agricultural exports, for example Argentina, there are no such countries with successful growth strategies based on agriculture. There are simple and straightforward reasons for this. First, middle income countries export agricultural products through high productivity, with production usually organised on the basis of wage labour and larger scale enterprises, not smallholders. As argued below, agribusiness would be Zambia's route to successful competition with South African agriculture.

Second, middle income countries tend to have an educated labour force, and their competitive advantage lies in skilled and semi-skilled workers. This, in turn, implies that employment expansion occurs in non-agricultural sectors, while productivity increases in agribusiness reduce agricultural employment. Therefore, for Zambia to pursue a strategy of agriculture-led growth would imply either rising unemployment as productivity grew or wasting the skills of its labour force.

Such a strategy would be contrary to all historical experience of successful development. This analysis suggests that an appro-

priate strategy for sustained growth and poverty reduction in Zambia should include the rejuvenation of the manufacturing sector, to avoid the instability of mineral dependence and the poverty trap of leaving most of the rural population in smallholder agriculture. The rejuvenation of manufacturing will be a major policy challenge, given the openness of the economy and the structural factors that affect Zambian manufacturing competitiveness, notably high energy and transport costs and excessive import dependence. There can be little doubt that the radical and rapid reduction of tariffs and non-tariff barriers, along with the abandonment of all aspects of industrial policy in the 1990s dealt a devastating blow to the manufacturing sector. Had a degree of protection been maintained on a selective basis, and effective elements of industrial policy continued, the sweeping privatisation could have been consistent with strengthening the country's manufacturing base.<sup>70</sup>

Using tariffs to foster manufacturing would be precluded by the provisions of the government's regional trade agreement, as would a number of non-tariff instruments. However, as Amsden (2006) showed for a number of Asian countries, policy imagination and negotiating skills can counteract the limitations posed by regional and multilateral trade agreements. Thus this limitation on industrial policy requires an imaginative approach to reconstructing the country's manufacturing base, in which policy would aim to reduce domestic production costs relatively to the price of competing imports. Measures to achieve this could be within a strategy of linking manufacturing to the country's primary sectors, agriculture and manufacturing.

The tactics to implement the strategy would include public investment in infrastructure to reduce costs of transport, electricity and water; credit directed to priority sectors (agribusiness and resource-linked manufacturing); long term government procurement contracts for the priority sectors; and government supported on the job

training. These did not discriminate between foreign and domestic owners, and would be acceptable under WTO rules and regional trade agreements.<sup>71</sup>

The non-interventionist approach to strategy would at best result in growth based on minerals and commercial agriculture. This would leave the economic future of the country hostage to the shocks of mineral and agricultural prices and the uncertainties of the climate. If poverty would be reduced within the time frame of the MDGs, indeed, if poverty would be more than marginally reduced over that time frame, a purposeful, integrated growth strategy is required that fosters an efficient manufacturing sector. Such a growth strategy requires well-designed interventions derivative from clear sectoral priorities. Public investment, with its significant crowding-in and linkage effects is the key instrument in that strategy.

### 4.3 Prospects for Agricultural Development *Agrarian Structures*

With the collapse of mining, the agricultural sector became, by default, the hope for growth and poverty reduction strategy in Zambia. The collapse of manufacturing reinforced this role for agriculture, as reflected in the PRSP for 2002-2004 stating that:

The PRSP sees the [agricultural] sector as one of the driving engines for the anticipated economic growth that is required to reduce poverty. In view of the potential multiplier effects that the agricultural sector has on the economy, the PRSP sees the restoration of its high and sustained growth as constituting a critical step for reducing poverty in Zambia. (GRZ 2002b, 53)

According to the PRSP, the rationales were that a majority of households depended on agricultural production for direct consumption and income generation; that Zambia had great agricultural potential; that GDP growth was correlated with fluctuations in agricultural output; that food security

depended on the performance of the sector; and, that farm productivity and commercialisation of production were low, so measures to enhance yields and facilitate access to domestic and foreign markets would have a substantial impact on rural incomes and livelihoods. These rationales can be found in other PRSPs in sub-Saharan Africa. On first inspection these seem appealing; however, they are oversimplifications in the absence of a thorough analysis of the sector. This section inspects the nature of agrarian structures in Zambia and its implications, and reviews evidence on effects of successive liberalisation packages applied since the early 1980s. Finally, it assesses evidence of the potential and competitiveness of the agricultural sector and the sectoral policies that might enhance poverty reduction.

Despite the heterogeneity of agricultural producers, there is no systematic comparable evidence for different types of farmers, which could be used to assess changes in the agrarian structure, and the relationship between those changes and policy measures. Data on large scale farming is not systematically available, especially on input use, and nor is data on employment, allegedly because response rates are low (Zulu et al. 2000, 3). The existence of a class of middle scale 'emergent' farmers cannot be systematically analysed over time due to the lack of a consistent classification of farmers and data gaps.

In great part as a result of colonial policy, agrarian structures in Southern and Central Africa were characterised by a marked dualism, whereby a rather competitive and technologically advanced commercial sector coexisted with a largely uncompetitive and vulnerable smallholder sector, and Zambia was no exception (Table 4.1).<sup>72</sup> Smallholders can be found almost everywhere in the country, and the commercial farming sector is concentrated along the main communication networks (along the 'line of rail' and around Lusaka and Copperbelt areas). Recent comparative analysis shows an advantage of large

commercial farmers over smallholder farming in profit per hectare, using different sets of assumptions with regards to input intensity and shadow prices for labour and land when there is no explicit market value. Large commercial farmers were more efficient for a range of crops, especially tobacco, cotton and horticulture, which are input demanding and employment intensive (ACF 2001). It could be argued that large commercial farming was more competitive in marketing, especially after the liberalisation of agricultural markets during the 90s.

Thus, it is analytically useful to dichotomise between middle and large-scale commercial farms and smallholders, the latter themselves being quite heterogeneous. According to the Census 2000, the majority of agricultural households engaged in a combination of activities, crop growing complemented by poultry and livestock. Most were classified in the agricultural census and household surveys as 'small scale farmers'. Often it is presumed that there is no hiring of labour by these households and that production is for on farm consumption.<sup>73</sup> However, micro level evidence suggests that scale differentiation within the sector was substantial and might explain the varying fortunes of producers in different parts of the country.

Heterogeneity among smallholder farmers is often explained by access to land, quality and quantity, proximity to markets and road networks, availability of capital and cash income, hiring of labour and diverse income generating strategies. The differences may vary across geographical locations, thus more marked patterns of differentiation may be found in certain ecological and social contexts than others.

Pressures on land were also significant in Zambia, making areas along the line of rail more prone to smallholder differentiation. Access to export markets, through public sector marketing boards or private companies with outgrowing schemes offered more opportunities to small scale commercial producers, thereby exacerbating dif-

ferentiation processes (Milimo et al 2002). There is strong evidence of a concentration of the value of crop production among the approximately eight-hundred-thousand smallholders (category 1 in Table 1, Zulu et al. 2000). The top twenty percent of this group of farmers generated sixty percent of total crop value.<sup>74</sup> For many 'high value' crops, horticulture, tobacco, sugar, wheat, soya beans, cut flowers and coffee, almost ninety percent of marketed production came from large scale commercial farmers who increased in number after they dropped to an all time low in the late 1960s.<sup>75</sup> Thus, increases in agricultural production might not have been evenly distributed across classes of farmers. Evidence seems to suggest that the level of concentration may have increased with the reform process (Gibbon et al. 1993; Zulu et al. 2000), a plausible hypothesis given the unequal and increasingly difficult access to assets, inputs, labour and credit over the 1980s and 1990s. There is evidence of existence of a growing class of so-called emergent commercial farmers (again, see Table 4.1) usually within the five to twenty hectare bracket, based on hiring labour from poorer households.

Territorial differentiation was also related to farmers' size differentiation. Eastern and Northern provinces contained one third of all agricultural households in Zambia, mostly small scale, resource poor farmers (Census 2000). These were provinces characterised by climatic vulnerability, and for many crops they displayed below average performances. At the national level, the most popular crops in Zambia were maize, grown by eighty-five percent of agricultural households, groundnuts by sixty-three percent, and sweet potatoes by sixty-one percent (Census 2000). The largest concentration of maize producers was found in Eastern province, which had twenty of all agricultural households growing maize, followed by the Copperbelt with thirteen percent of such farms. Cash crop production was more unevenly distributed by province, though cotton was con-

centrated in the Eastern province.<sup>76</sup> Tobacco, primarily a large scale crop, was dispersed, but more common in Eastern, Southern and Northern provinces, with some significant presence in Western province as well.

The fastest growth of agricultural households was in Lusaka and Copperbelt provinces, which contain the major urban areas between the Censuses in 1990 and 2000 (Census 2000 Agricultural Report). These were the provinces with the most dynamic agriculture, with non-traditional exports including fresh produce, cut flowers and to a lesser extent tobacco.

This finding is consistent with the pattern of social change that took place during the 1990s. This trend signals a process of '*agrarianisation*', which has to do with initial social structures and high rates of urbanisation, compared to other African countries up to 1990, coupled with the changes during the liberalisation period and the stagnation in urban wage employment.

Constraints on production differ among classes of producers and regions. At a national level, land was not a binding constraint, because of the amount of idle land available in large parts of the country.<sup>77</sup> However, the value of land varied, due to availability of infrastructure, distance from markets and economies of scale. Thus, in some areas land pressure might be an issue, and access to land constrained. The general rule observed in many countries, that land may be absolutely abundant but scarce for the poor, applies to Zambia. In this context, it should be noted that land titling was an issue largely limited to commercial farmers (Milimo et al 2002 and Skjonsberg 2003). Family labour constrained how much land a poor household could farm, given technology and input constraints; i.e. that many smallholders were too poor to expand their cultivated areas (WB 2004a). Moreover, the land lease system was convoluted and cumbersome (Jaffee 1999).

Labour shortages constituted a major constraint on agricultural production,

particularly for small and medium scale farmers (WB 2004a, 46). Smallholders also suffered from being resource poor and distant from markets, which made access to inputs and market outlets very difficult, if not impossible. Their bargaining power vis-à-vis traders or companies managing outgrowing schemes (i.e. cotton) was low, which put them in a vulnerable position in an environment in which the liberalised markets tended to have barriers to entry (ACF 2001; Scott 2002). Access to finance was a constraint often mentioned by commercial farmers, perhaps because they had easier access than small farmers to markets requiring 'lumpy' expenditures.

In summary, the key features of the Zambian agrarian structures were, first, a competitive large scale commercial sector. This sector was controlled by white settlers before Independence, and then gradually included African and Asian Zambian farmers after the 1970s. After 2001 white farmers expelled from Zimbabwe also had a significant presence. The commercial sector dominated production of tobacco, coffee, sugar, wheat, vegetables, soya beans and flowers. In addition, it accounted for a third or more of marketed maize and cotton. These farms could be highly mechanised and generated demand for substantial seasonal and casual wage labour.<sup>78</sup>

A commercially oriented small and medium scale farm sector emerged, concentrated near urban areas and along main transport networks, in the Eastern, Central and part of Southern provinces. Many of these middle scale farmers, and some small scale ones, were integrated into agribusiness through outgrowing schemes. A lower productivity commercial small farm sector, with an increasing share of cash crops since the 1990s, was concentrated in zones with high agricultural potential. Finally, a semi-subsistence small farm sector located in remote areas away from national markets and vulnerable to production and marketing constraints grew food crops.

### *Agricultural trends and Policies*

The objective of government agricultural policies before the 1990s was to ensure food security, with the emphasis on maize. With growing urbanisation in the 1960s and 1970s agricultural policies sought to maintain low and stable consumer prices for key commodities, like maize-meal (Gibbon et al. 1993; Mkandawire 1993). Maize subsidies, guaranteed government market outlets through marketing boards (the NAM-BOARD), cooperatives and state input distribution schemes, were the main mechanisms to do so during the interventionist period of 1969-1983 (Chiwela et al. 1996). Notwithstanding interpretations of these policies as reflecting an 'urban bias' in favour of a 'labour aristocracy' (Dodge 1977; McPherson 2004, 308)<sup>79</sup>, the Kaunda government invested substantial amounts in the agricultural sector and applied a developmental rather than an extractive approach to agriculture and rural areas (Gibbon et al. 1993; Kydd 1988; Mkandawire 1993, 461).

Nation-wide pricing and subsidies to farmers, both small and large producers, were mechanisms that also favoured more vulnerable and less viable farmers in remote areas of the country. Subsidies on inputs, transport, producer prices and consumer prices accounted for one-fourth of government revenues and 6.7 percent of GDP in 1980 (Gibbon et al. 1993, 86; McPherson 2004, 307). While it is difficult to measure the output effects of subsidies, the resulting increase in maize production probably led to more abundant supplies of maize in deficit periods, benefiting the poorest net maize buying households as found in Malawi which implemented similar policies (Peters 2006). Since one effect of the subsidies was to maintain marginal producers, they did not foster the international competitiveness of agriculture. This conclusion would apply more to commercial producers than to small farmers, since the costs of major inputs of the latter, notably labour, were not market determined.

There can be little doubt that subsidies

and the introduction of high yielding crop varieties had a positive effect on maize production and productivity, particularly in areas of higher rainfall. The objection of the World Bank, the main to the subsidies, was that they represented an excessive burden in the public budget, and once foreign exchange constraints became binding, spending on subsidies would not be sustainable.<sup>80</sup> In addition, some argued that the subsidies resulted in maize production in areas where this was not a comparative advantage (McPherson 2004, 307; Seshamani 1998), though verifying this hypothesis is elusive. More serious and empirically sound is the hypothesis that support for maize reduced the capacity of the agricultural sector to generate exports. Agriculture in Zambia in the pre-adjustment years was highly import dependent, a drain on, rather than a source of, foreign exchange. Imported inputs, machinery, energy and seed underpinned much of the production by large and medium scale farmers.

The government undertook World Bank and IMF reforms in marketing, pricing, subsidies and the exchange rate in 1982. These came to a halt in 1986 and 1987 after increases in maize prices provoked urban demonstrations that turned violent (Gibbon et al. 1993, 94).<sup>81</sup> Under a government-designed programme unsupported by external agencies, subsidies briefly resumed. This programme quickly collapsed, forcing the Kaunda government to turn again to external agencies, this time to face conditionalities much more severe. Agricultural output and food production trends were positive from 1983 until 1989 (Table 4.2 and see Figures 4.1 through 4.3).

This was partly due to a recovery in maize production after a collapse in the early 1980s and to gradual increases in other crops, cassava, tobacco and groundnuts (Figure 4.2). Reforms in this period were patchy and often inconsistent, responding to the short term trends and the status of negotiations between the government and the international financial agencies.

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Between 1989 and 1995 agricultural value added, food production and maize declined, displaying considerable volatility. This period was one of rapid liberalisation combined with large devaluations, with fiscal austerity and tight monetary policies compounded by the effects of the 1992 drought. By 1993 the Zambian agricultural sector was one of the most liberalised in the continent. Trends appear rather ambiguous if one focuses on the 1990s and early 2000s. Production in general was volatile, especially for maize, but at the same time there occurred a growth of non-traditional crop production. Evidence suggests that the rise in exports was mainly accounted for by large commercial farmers and out grower schemes involving groups of smallholders, particularly in the case of cotton. These exports included tobacco, horticultural products, cut flowers and sugar, which are highly concentrated among large and medium scale commercial farmers in the Central, Southern and Eastern provinces. Horticultural exports grew but not impressively (WB 2004a). The availability of finance, through an export credit scheme funded by the European Union and the World Bank and the arrival of Zimbabwean farmers gave an impetus to large scale commercial farmers, who were concentrated near Lusaka airport (WB 2004b, 19).

Associated with the increase in cash cropping, a change in crop choice among farmers occurred after 1991, especially for smallholders. With the removal of supports, maize production decreased in importance (WB 2004b, 36). In fact, part of the reason for the reduction in maize production in the post-reform period was that 'the artificial comparative for maize was destroyed by price liberalisation' (Seshamani 1998, 545). In areas where cash crops did not expand, other low value food crops replaced maize, notably cassava, groundnuts and other roots in the Northern and Northwestern provinces.<sup>82</sup> This trend was similar to that in Malawi, where cash cropping expanded at the expense of maize

cultivation and undermined the livelihoods of poor households in the context of harvest failures and increases in local maize prices (Harrigan 2003; Peters 2006).

The reduction in the adoption of fertilisers was perhaps the single most significant effect of agricultural liberalisation (WB 2004a; Deininger and Olinto 2000; Chiwele et al. 1996). As the World Bank commented, part of the collapse in crop production in the first half of the 1990s 'resulted from the government's withdrawal from the highly subsidised marketing of maize and farm inputs' (WB 2004a, 36). This effect had two aspects: fewer farmers used fertiliser, and those using fertilisers applied smaller doses or spread it across different crops. Both effects had a negative impact on the total crop output and productivity.

The fertiliser constraint largely explains the weak supply response of Zambian farmers to the introduction and acceleration of marketing reforms (WB 1993; Deininger and Olinto 2000). This was not due to lack of profitability in the application of fertilisers, which a study for 1993-1995 showed to yield a return of almost twenty percent (Deininger and Olinto 2000). This implies the conclusion that reduced fertiliser use resulted from poor farmers lacking the funds to purchase the input. If fertiliser adoption is profitable at the margin only farmers who can afford to buy a bag will adopt it. Thus, empirical evidence corroborates the obvious: poor farmers benefited little from trade liberalisation and agricultural reforms, as only relatively rich farmers were able to compete in a liberalised environment.

The World Bank concluded that at least a third of smallholders, the poorest people in Zambia, did not benefit from the agricultural reforms since 1991, because of market failure or market absence (WB 2004a, 36). In a report in 2004, one reads,

When the [new] government came to power in 1991, it accelerated the pace of economic reforms. This was done uncritically, and without



studying the implications of the reforms and or making adequate preparations for them. (WB 2004b, 4).

To this it can be added that marketing reforms, rather than stimulating production, tended to marginalise most farmers living in remote areas (Chiwele et al. 1996). These marginalised farmers faced a vicious cycle: the lack of storage facilities and the need for cash to meet increasing expenditures (school fees, blankets for early winter period) forced many farmers to sell at very low prices to the first bidder, given the scarcity of traders in these areas; further lower incomes and increasing prices for inputs meant lower capacity to produce the following season and so on (Seshamani 1998, 550). As a result, the perception of the reforms by small farmers was overwhelmingly negative, especially for those more distant from national and regional markets, with the most negative effects felt by the poor farmers with few farm assets (Milimo et al., 2002).

The gains from liberalisation went to farmers in areas with access to transport. Some small farmers benefited from the expansion of agribusiness through out grower schemes in cotton and tobacco. However, the problem of obtaining credit also affected commercial farmers, a potential source of increased investment and new technologies. The collapse of credit delivery systems left a vacuum partially covered by informal lenders (*kaloba lending system*), who charged interest rates as high as one-hundred percent per month (Chigunta 1998, 254).

The effect of liberalisation of agricultural markets was not entirely negative (Seshamani 1998). There was more competition from small-scale hammer maize millers and a wider range of meal products available to consumers, as well as decreasing marketing costs, once the privileges granted to large-scale urban millers benefiting from subsidized maize prices disappeared. This was especially the case in areas where private traders and millers were more abundant,

i.e. closer to urban centres and infrastructural corridors. Some cash crops and non-traditional agricultural exports expanded from the late 1990s. The main state cotton company was privatised in 1995 and split in two parts. The effect on the cotton market was to convert a state monopsony to a private oligopsony, with three buyers controlling ninety percent of trade in 2002. However, the out grower schemes mentioned above brought benefits to small and medium producers. Thus, the benefits from the changes in the cotton sector arose not from competitive markets, but from a continuation of market concentration under private ownership.

Large scale commercial farmers and corporate agribusiness began adopting out grower schemes as a result of pressure from donors through the government, the experience of transnational distributors in the region (cotton and tobacco for example) and problems in the implementation of the New Land Act, which made access to land a cumbersome process in some areas, especially where land pressure is more severe. Out growing schemes may allow larger commercial farmers to spread the risk and uncertainty involved in seasonal hiring, while they still control a good deal of the production process indirectly, deciding on use of inputs, techniques, crop area and quality of product. A potential problem with these schemes is that payments to farmers follow strict quality standards, and the greater market power of the corporations creates the potential for abuse (ACF 2001).

More generally, the positive performance in a range of cash crops in Zambia under liberalisation is endangered by regional integration and competition from South Africa. In the course of interviews with different stakeholders of the agricultural sector, it became clear that in the 2000s competition from South Africa threatened to bankrupt several agricultural businesses in Zambia. It appears that large retailers, such as supermarkets, do not consider Zambian products sufficiently competitive

4 even allowing for the extra transport costs incurred by South African products. For example, orange plantations in the Zambezi valley suffered from the competitive pressure of SA operators and were forced to close down (Milimo et al, 2002, 11). The problems of competition from South Africa have preoccupied the Agricultural Consultative Forum, an organisation representing the interests of commercial farmers, but no policy recommendations have emerged on this strategically important issue for Zambia.

The threat of regional competition was pointed out by the World Bank with reference to the reforms in the 1990s; 'the quick and hasty openness of the economy against the backdrop of state ownership of key producing units, created an "unequal" competition for domestic businesses, which saw many businesses exit the market' (WB 2004b, 5). There was no consensus among commercial farmers on how to deal with the problem, on the one hand favouring product market liberalisation and, and on the other, resisting liberalisation of input and credit markets.<sup>83</sup> For example, the somewhat erratic government interventions in maize marketing, input subsidies, fertiliser distribution and other measures in the 1990s, resulted from pressures by powerful farming constituencies coming through the National Farmers' Union (Pletcher 2000).

In summary, the experience of the 1990s carries several lessons for agricultural policy making. First, adequate and generally available credit linked to agricultural investment, especially for large scale commercial agriculture and outgrowing schemes, would be essential for future agricultural growth. Second, diversifying into high value crops can reduce vulnerability and increase employment either directly in large estates or indirectly through small scale commercial growers. Third, with respect to agriculture, the liberalisation and macroeconomic stabilisation policies of the 1990s were badly sequenced structural reforms, creating a shortage of affordable credit.

In addition, the large devaluations

negatively affected import dependent agriculture, allowing little time for producers to adjust. Fourth, the lack of investment in infrastructure, market facilities, credit institutions, and insurance mechanisms made market liberalisation result in limited benefits to small producers. Fifth, a more appropriate policy approach would be to design crop and farm specific policies rather than general 'reform' packages that are difficult to link to concrete outcomes.

Points similar to those above can be found in the PRSP, which was critical of the design of the liberalisation programme, especially during 1989-1994. During that period of 'irrational exuberance' for liberalisation, neither external nor internal policy makers gave much thought to the possibility of market failures (GRZ 2002, 59).

In the mid-2000s, the government faced the issue of how to correct the mistakes of that period. One approach would be to treat liberalisation as irreversible in general and in detail, and just design policies to help those excluded from its benefit; a 'safety net', as it were. Such an approach would have little likelihood of success for several reasons. First, evidence suggests that the non-beneficiaries far outnumbered the beneficiaries, implying that such a programme must be quite large. Second, effective targeting would be administratively impossible because of the intractability of measuring the smallholder incomes.

Considerably more promising would be selective market interventions that in principle would benefit all producers, but are designed for the different circumstances of smallholders and larger scale commercial growers. These are discussed at the end of this chapter. Such interventions would address the structural constraints affecting different types of farmers. The cases of successful adjustment to liberalisation by farmers suggest that agricultural policy must be innovative, flexible and adapted to the particular circumstances of a variety of classes of farmers, processors, traders and regions. Moreover, agricultural policies

should be treated within an integrated strategy that considers the impact of macro-economic measures on different aspects of agricultural development in Zambia. This approach would be consistent with the observation in the 2004 government document on agricultural priorities, that 'it is recognised that it will take time for markets to be fully liberalised and to function efficiently' (GRZ 2004, 11).

### *Gender Aspects of Agriculture*

Shifts in cropping patterns induced by adjustment policies altered the division of labour, and the control over produce and incomes within the household. Small-scale producers tended to rely heavily on family labour, such that the intensification of production increased the workload of women, while they simultaneously had a reduced ability to control the income from sales. In addition, women's independent production remains constrained by lack of access to land, credit, technology and information and, crucially, labour.

The income possibilities for women are further disadvantaged by their lack of access to improved agricultural techniques and inputs such as fertilisers, pesticides, and hybrid seeds, which are crucial to improving productivity. Gender-differentiated access to farm equipment, particularly modern implements, contributes to the differentiation in resources available to female and male-headed households. Women often spend long hours doing arduous agricultural tasks which could be relieved by access to farm implements (ZARD 1985:91). A recent assessment of poverty in Zambia indicated that it was not female-headed households per se who were disadvantaged, but specifically female-headed households lacking male adult support (IDS, 1994:17).

In general, female headed households tend to produce less than other households because of labour constraints, especially for tasks considered men's jobs such as clearing land. Women in general also have difficulty gaining access to credit, training progra-

mmes and extension services. Thus, households headed by women tend to be over-represented among the rural as well as urban poor (Loxley, 1990:75).<sup>84</sup> Shifts in cultivation have gender implications in terms of control of the crop and income, which vary according to the region and patterns of production.

If a new cash crop is adopted as a direct substitute for maize grown on former maize fields, there is likely to be little change in the control of resources as the crop and the land will be automatically embedded in male-dominated marketing and extension structures and the husband will control the income. This is the case with the adoption of soya beans in Northern Province.

Where land formerly used to produce crops for household consumption is taken over by cash crops, or where a traditional consumption crop gains importance in the cash sector, there is a tendency for men to take control of the income derived from the crop. This is even more likely when, as is the case now, men's incomes from some established cash crops are declining and the costs of meeting their private consumption needs are increasing. This is the case of mixed beans in Northern Province and for cotton and soya beans in Eastern Province. In Eastern Province, cotton and soya beans are increasingly replacing maize, which was an important food crop. As men hold ultimate control over cotton and soya beans, wives have encountered greater difficulties in protecting scarce resources from male demands. The fall in maize production severely threatens the food security of a large number of farming households leading to increasing problems of seasonal hunger (Geisler, 1992:129).

Household food security tends to be dependent on the control exerted by women over land, labour and produce as women are generally held to be responsible for producing for household consumption. As more of these resources are channelled into the cash economy, there is a tendency for men to divert the profits away from the house-

hold and thus for the nutritional standards of the household to diminish.

#### 4.4 Agriculture-driven Growth

According to the World Bank (WB 2004b, 19) 'Zambia is a sleeping agricultural giant, with one of the best land and water endowments in Africa and an above average human resource base, even in the smallholder sector'. In keeping with this enthusiastic assessment, the World Bank concludes Zambia would be internationally competitive on a different number of crops, and that agriculture could be the basis of poverty reducing growth.

This section first considers Zambia's agricultural potential, and the broader question of whether the agricultural sector could be an engine of growth. To begin, it should be noted that agricultural production is a human activity realised in a social context, not merely a natural one derivative from the combination of soil and water.

Appropriate social conditions can render soil of marginal natural endowment highly productive, and the absence of appropriate social conditions renders fertile soil socially useless. Zambia, can potentially be internationally competitive on a number of crops provided a host of conditions are met, but this does not mean all types of farmers in all locations of the country can be part of an internationally competitive agriculture.

As discussed above, it is unlikely that the large number of dispersed smallholder farmers can constitute the basis for an internationally competitive agriculture. Their rain fed agriculture is plagued by high variations in yields, which are exacerbated by inadequate infrastructure, excessive import dependence and lack of insurance mechanisms. These severely limit the potential for the successful development of smallholder agriculture on a nationwide scale. Thus, Zambia, as for Mozambique and Angola, may have considerable agricultural potential, perhaps equivalent to South Africa's in terms of resource base, but the

non-price constraints restrict the emergence of competitive agribusiness, which could generate economies of scale in marketing and foster innovation (Jaffee 1999, 2). The establishment of production and marketing support structures for all or the majority of smallholders would require substantial investment which is itself constrained by the fiscal policies of the 2000s.

The Zambian government, in the PRSP and the most recent Agricultural Policy Vision, has stressed some potentially successful routes: 1) enhancing business linkages between large scale farmers and small scale commercial producers; 2) promoting out-growing schemes; 3) promoting non-traditional agricultural exports to enhance export diversification; 4) lowering production costs and constraints, especially on energy and transport. The sub-sectors and crops for which Zambia's potential has been demonstrated in practice were tobacco, facilitated by the crisis in Zimbabwe and relocation of regional production; horticulture, including cut flowers, concentrated around Lusaka and produced by commercial farmers; and meat and dairy production, whose export potential remains untapped. As noted above, it is not clear that fiscal space at the time of this report was consistent with such ambitious goals.

The agricultural competitiveness reports of 2001 and 2002 show there were major differences in competitiveness across producer types and regions, suggesting that directing investment towards more successful areas and farmers would be the policy most likely to generate an agricultural sector that could be competitive with South Africa. However, the poverty reduction impact of such a strategy could be considerably less than one that included smallholder development. Further, a corporate agribusiness strategy, for all its advantages, is not without problems. Such businesses can easily move operations to other countries, as happened in Zimbabwe, a lesson that the Zambian government should consider seriously. A credible and sustained incentive system to

keep agribusiness investments in the country is essential.

This includes both micro and macroeconomic policies. If a policy of investing in infrastructure in areas of greatest potential were chosen, the Zambian government could take a lesson from South Africa on the important role to be played by public and semi-public regulatory bodies in maintaining quality and penetrating markets.

Overall, a pro-poor agribusiness strategy should consider several components and policy options that may be tried depending on the circumstances. The most important are:

1. Avoiding dysfunctional sequencing between macro reforms (trade and financial liberalisation, fiscal squeeze, credit squeeze) and agricultural liberalisation cum subsidy removal typical of the 1990s.
2. Better integration in global value chains (i.e. vegetable and tobacco exports) through proactive state intervention in negotiating for better markets through international marketing, and bilateral intergovernmental agreements to ensure Zambian agribusinesses are well placed in more dynamic global value chains, like those buyer-driven chains associated with very large distributors/retailers (Tesco and others). Encourage agro-processing and upgrading within value chains with a focus on product quality through technological upgrading and foreign direct investment promotion. The development of agro-processing both for exports and consumer goods in the national market should be a priority in the medium term in order to better integrate agricultural and manufacturing labour-intensive development.
3. Protection from South Africa. Notwithstanding the SADC protocol, the Zambian government could explore ways of managing the influx of competitive South African imports and foreign direct investments from South Africa, like those affecting the agricultural and manufacturing sectors, without breaking the rules of current trade agreements. Enhancing negotiating skills in this respect may be necessary in the short term.
4. Reinforcement of poles of development around good infrastructure. Although there is a case for expanding infrastructural development in areas so far isolated from more dynamic regions, especially if linked to public employment schemes as argued in chapter 3, there is a case for investing in the renewal and maintenance of existing infrastructure to make sure existing poles of development do not lose their dynamism.
5. Address access to credit and crop insurance for commercial farmers, since this is one of the most important supply constraints on production and especially non-traditional exports. Attracting foreign finance through foreign agribusiness in outgrowing schemes can be a route, albeit not without risks. There is need for financial institutions designed and publicly supported (with the contribution of international partners) to address the financial needs of the most dynamic and efficient agricultural producers with an export vocation. Any financial incentive should be linked to clearly established performance criteria for beneficiaries around two main aspects: (a) net foreign exchange generation and (b) employment creation and work conditions (especially for female workers)
6. Monitoring work conditions (average wages, work days, health and safety, etc.) in agribusiness, especially of the seasonal and casual workers (especially female labourers) who often are not covered by government regulation, will be necessary to make an agribusiness-centred strategy more pro-poor. Most large and middle-scale commercial farmers can afford to offer decent

conditions to their workers, more than smallholder employers who lack the means and where unit labour costs can be higher due to low productivity.

If successful, an agribusiness strategy like the one proposed above requires a complementary programme directed toward less viable smallholders and remote areas. The government of Vietnam pursued such a dual approach with some success (Weeks, et. al. 2004). The smallholder component of the strategy would include policies for food security, to prevent seasonal hunger. Maize still constitutes the main crop for a high proportion of small farmers, who are considered the bulk of the poor in rural areas. Until alternative (more efficient and viable) maize producers emerge and markets expand to remote areas to make maize cheaper and available throughout the country, the reintroduction of maize subsidies might be considered, with a limit on size of payments to farmers. Such a policy would require a well-organised and monitored farm gate purchasing system. This system should be territorially selective and an attempt should be made to differentiate 'smallholders' into more meaningful social and farming categories, so that the real needs of better defined groups can be established, otherwise selectivity and targeting will be impossible.

Apart from these selective support interventions other concrete measures may be necessary to protect poorer small farmers. First, selective investments in water management to reduce crop risk in drier areas of the country. Second, public work schemes designed to foster infrastructure in more remote areas and inject cash in poorer local economies, which may provide means to improve farming or finance migration to more lucrative areas. Third, facilitating resettlement schemes to more productive and profitable areas or existing outgrowing schemes, so more vulnerable groups can participate in poles of development. Fourth, in a selective manner, the government could consider the possibility of becoming buyer

of last resort with public finance, in areas or years in which a failure of existing marketing systems may provoke socioeconomic crisis among small farmers trying to sell their crops. This is a guarantee that should be used only selectively and in circumstances where no other alternative appears in the short term.

In summary, a pro-poor growth strategy in agriculture must have two components, fostering agribusiness for export competitiveness (and national markets as they develop through higher purchasing power and agro-processing development), and selectively supporting smallholder development to reduce poverty among those not directly benefiting from the former. Both components require considerable public investment, albeit of different types and in different areas. Poverty reduction within the agribusiness sector would be further enhanced by incentives to employ labour more intensively (through credit and fiscal incentives conditional on employment creation), by an effectively enforced minimum wage policy and by supporting employees' organisations to foster improved working conditions.

69 When a cross country regression was calculated for thirty-five sub-Saharan countries, excluding Zambia, for 1990, 1992, 1995, 1997, 2000 and 2001, the following results were obtained:

$$\ln[\text{PCY}] = 8.52 - .645[\ln\text{Agric/GDP}] - .156[\ln\text{Illtry}] + .276[\text{Doil}]$$

(0.000) (0.000) (0.046) (0.018)

$F = 45.42$ ,  $\text{Adj R-square} = .425$ ,  $\text{Degrees of Freedom} = 177$

$\ln$  = natural logarithm

PCY = per capita income in 1995 US dollars

Agric/GDP = percentage share of agricultural value added in GDP

Illtry = percentage of population over 15 illiterate, so literacy rate is

$(100 - \text{Illtry})$

Doil = binary variable taking the value of unity for petroleum exporters

Zambia's actual per capita income across these years was US\$ 418, while the regression predicts an average of slightly over 1200.

70 This judgement is based on interviews with officials at the Zambia Privatisation Authority, the Ministry of Finance and a former WB official.

71 See the annex to this chapter for a discussion of industrial policy and trade agreements.

72 Smallholders normally cultivate two-thirds of all arable land, with the rest in the hands of medium and large scale commercial farmers (Jaffee 1999, 43).

73 There is evidence pointing to the contrary. Gibbon et al. (1993,

92) cite a study carried out in Northern Province, where the incidence of agricultural wage employment is often ignored, which shows that different classes of smallholders, depending on their scale of production, do hire wage labour up to twenty percent of total labour inputs. For a small commercial farmer producing between two and thirteen tons and planting less than five hectares, this means over six hundred hours of hired labour per hectare per season, a significant amount.

74 Note that the top twenty-five percent in terms of farm-size cultivate a bit less than three hectares (national average), which is almost eight times more than the average cultivated area of the bottom quartile of smallholders (Zulu et al. 2000, 26), but far less than many medium scale 'emergent' farmers typically cultivating between five and twenty hectares.

75 Information provided by a representative of the National Farmers Union in Lusaka, November 2004. See also Gibbon et al. (1993, 93).

76 Conventional cash crops were cotton, tobacco, soya beans, sugar, wheat, sunflower, and paprika among others. Maize can be regarded as a food crop or a cash crop depending on the extent of its marketing.

77 It is estimated that only sixteen percent of arable land is actually cultivated.

78 For example, in the highly intensive Lusaka-based horticultural and cut flower export farms it is estimated that more than ten thousand farm workers are engaged (information from National Farmers Union).

78 An analysis of relative incomes in rural and urban areas reveals that the so-called urban-rural gap in incomes was relatively small (Jamal and Weeks 1989).

80 Good maize years usually implied increased costs for the government, which often resulted in growing indebtedness.

81 See Gibbon et al. (1993) and Saasa (1996) for details on specific policy reform measures undertaken in the period 1980-1992. See also WB (2004a), Deininger and Olinto (2000) and Poulton et al. (2003) for details concerning the post 1991 agricultural reform process. See Situmbeko and Zulu (2004) for a chronology of IMF and WB sponsored-policy measures.

82 This food-crop choice may have also been driven by the HIV pandemic to compensate for the decrease in labour time available for agriculture, especially for food production (UNCEAD 2004, 37)

83 These seeming 'contradictions' were obvious in interviews at the National Farmers Union and the Agriculture Consultative Forum, November 2004.

A study measuring net per capita income in female and male-headed households found little difference between them. (Geisler, 1993)

Table 4.1: Types of Agricultural Producers in Zambia

Type produced	Number of producers	Average farm size	Technology, Cultivation practice	Market orientation	Location	Major consumers
Small-scale producers	800,000 household	Less than 5 hectares (With majority cultivating 2 hectares or less)	Hand hoe, minimal inputs, household labour	Staple foods, primarily home consumption	Entire country	Remoteness, seasonal labour constraints, lack of input and output markets
Emergent farmers	50,000 household	5 - 20 hectares	Oxen, hybrid seed, fertilizer, few with irrigation, mostly household labour	Staple foods and cash crops, primarily market orientation	Mostly along rail lines (Central, Lusaka, Southern provinces), some Eastern, Western provinces	Seasonal labour constraints, lack of credit, weak market information
Large scale commercial farmers	700 farms	50 - 150 hectares	Tractor, hybrid seed, fertilizer, some irrigation, modern management hired labour	Maize and crops	Mostly Central, Lusaka, Southern provinces	High cost of credit, indebtedness
Large corporate operations	10 farms	1,000+ hectares	High mechanisation, irrigation, modern management, hired labour	Maize, cash crops, vertical integration	Mostly Central, Lusaka, Southern provinces	Uncertain policy environment

Source: adapted from World Bank 2003a

Table 4.2: Area under Cultivation for Selected Crops and Percentage Changes, 1989-2003 (hectares)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Maize	763,258	639,390	661,305	623,340	679,914	520,165	675,565	649,069	510,374	598,181	605,648	583,850	696,619	699,276	631,080
Groundnuts	80,443	80,470	68,724	71,415	105,737	100,431	89,488	126,573	154,682	119,945	69,532	135,108	139,562	150,460	116,978
Sunflower seeds	44,289	36,490	32,302	39,450	31,079	32,433	47,621	20,745	15,692	14,280	12,982	37,666	22,600	22,521	30,689
Cotton	64,036	74,020	59,614	76,492	50,067	35,200	66,217	89,879	80,254	70,629	36,947	56,939	87,026	86,431	121,593
Soya beans	29,815	29,200	22,786	19,864	25,447	21,612	25,489	17,273	11,681	11,716	11,721	16,754	17,963	17,402	33,186
Wheat	11,595	11,849	10,964	13,656	11,566	7,806	10,327	10,693	11,251	12,682	14,113	14,380	22,600	26,277	-
Tobacco, burley	1,483	1,898	2,313	9,388	4,450	1,720	2,059	2,762	3,464	3,157	3,337	4,247	3,855	3,944	8,052
Tobacco, Virginia	3,588	1,262	2,951	3,558	1,900	1,353	1,594	3,497	5,400	4,730	4,060	3,715	3,010	-	5,464
Paddy rice	9,627	13,450	14,369	13,802	7,177	9,746	9,888	12,412	9,065	13,364	10,532	14,321	13,050	10,305	12,379
Sorghum	48,466	31,790	40,323	46,563	55,245	40,365	47,839	40,237	35,864	36,405	37,388	43,354	33,955	37,054	45,350
Millet	58,869	45,270	66,598	52,654	82,302	73,809	76,930	78,639	90,047	77,292	61,277	69,738	61,347	56,751	59,081
Mixed beans	26,436	28,940	38,508	38,489	48,599	41,462	43,240	41,541	35,379	30,780	39,853	51,025	40,043	44,002	45,270

Table 4.2 continued

Percentages	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Maize		-16.2	3.4	-5.7	9.1	-23.5	29.9	-3.9	-21.4	17.2	1.2	-3.6	19	0	-10
Groundnuts		0.0	14.6	3.9	48.1	-5.0	-10.9	41.1	22.2	-22.5	-42.0	97.2	2	8	-22
Sunflower seeds		-17.6	-11.5	22.1	-21.2	4.4	46.8	-56.4	-24.4	-9.0	-9.1	190.1	-40	-0	36
Cotton		15.6	-19.5	28.3	-34.5	-29.7	88.1	35.7	-	-	-47.7	54.1	53	-1	41
Soya beans		-2.1	-22.0	-12.8	28.1	-15.1	17.9	-32.2	-32.4	0.3	0.0	42.9	7	-3	91
Wheat		2.2	-7.5	24.6	-15.3	-32.5	32.3	3.5	5.2	12.7	11.3	1.9	57	16	-100
Tobacco, burley		28.0	21.9	305.9	-52.6	-61.3	19.7	34.1	25.4	-8.9	5.7	27.3	-9	2	104
Tobacco, Virginia		-64.8	133.8	20.6	-46.6	-28.8	17.8	-	-	-	-	-8.5	-19	-100	-
Paddy rice		39.7	6.8	-3.9	-48.0	35.8	1.5	25.5	-27.0	47.2	-21.1	36.0	-9	-21	20
Sorghum		-34.4	26.8	15.5	18.6	-26.9	18.5	-15.9	-10.9	1.5	2.7	16.0	-22	9	22
Millet		-23.1	47.1	-20.9	56.3	-10.3	4.2	2.2	14.5	-14.2	-20.7	13.8	-12	-7	4
Mixed beans		9.5	33.1	-0.0	26.3	-14.7	4.3	-3.9	-14.8	-13.0	29.5	28.0	-22	10	3

Table 4.2 continued

Indices	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Maize	100	84	87	82	89	68	89	85	67	78	79	76	91	92	83
Groundnuts	100	100	85	89	131	125	111	157	192	149	86	170	173	187	145
Sunflower seeds	100	82	73	89	70	73	108	47	35	32	29	85	51	51	69
Cotton	100	116	93	119	78	55	103	140	125	110	58	89	136	135	190
Soya beans	100	98	76	67	85	72	85	58	39	39	39	56	60	58	111
Wheat	100	102	95	118	100	67	89	92	97	109	122	124	195	227	-
Tobacco, burley	100	128	156	633	300	116	139	186	234	213	225	286	260	266	543
Tobacco, Virginia	100	35	82	99	53	38	44	97	151	132	113	104	84	-	152
Paddy rice	100	140	149	143	75	101	103	129	94	139	109	149	136	107	129
Sorghum	100	66	83	96	114	83	99	83	74	75	77	89	70	76	94
Millet	100	77	113	89	140	125	131	134	153	131	104	118	104	96	100
Mixed beans	100	109	146	146	184	157	164	157	134	116	151	193	151	166	171

Source: Central Statistical Office, Agriculture Branch.



Figure 4.1: Production Trends for Selected Products, 1989-2003 (index 1989 = 100)

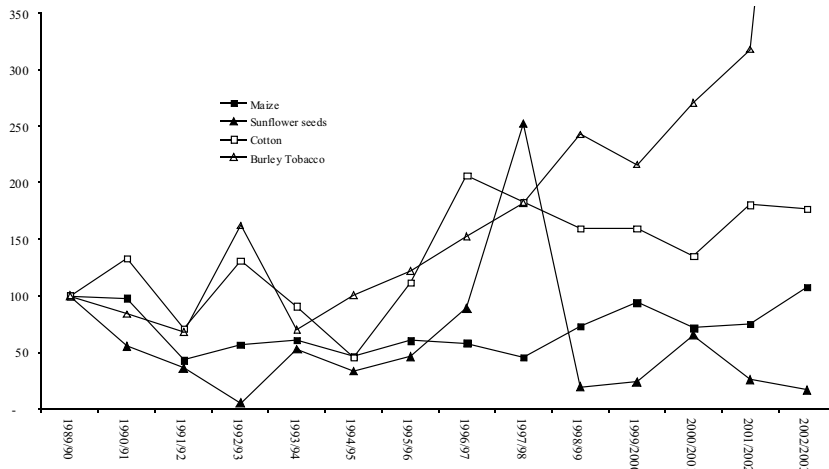


Figure 4.2: Acreage in Food Crops, 1990-2000 (index 1989 = 100)

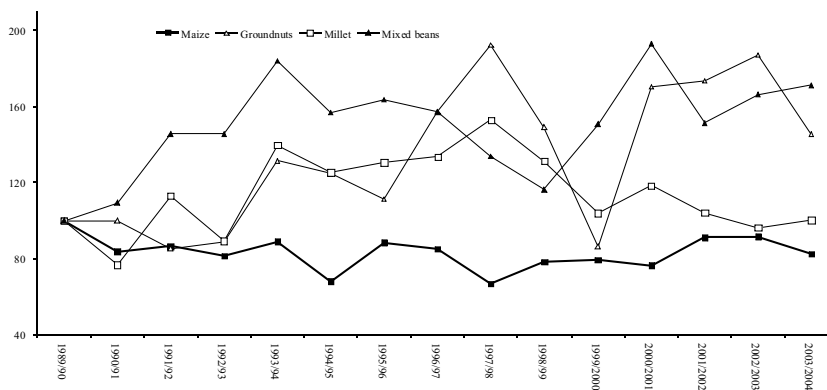
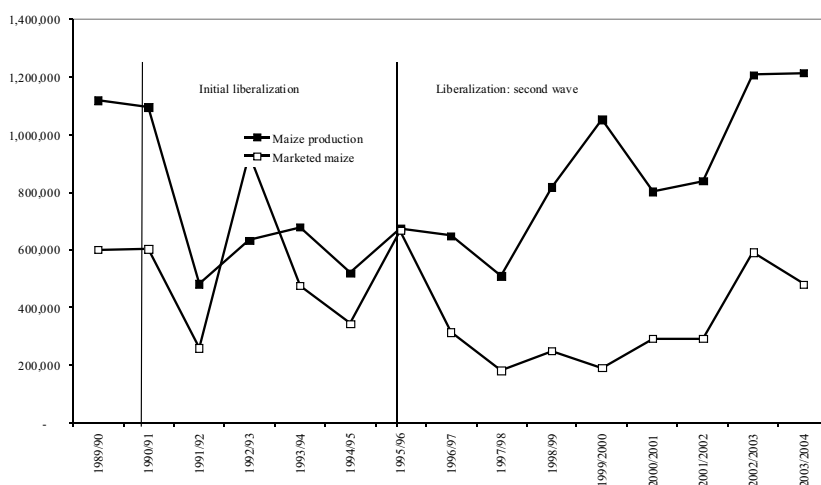


Figure 4.3: Maize Production and Marketed Maize, 1989-2004 (metric tons)



# Annex

## 4A.1 Industrial Policy and Trade Agreements

### Introduction

Zambia joined the World Trade Organisation in the 1990s during a period of rushed across-the-board liberalisation. That period of liberalisation was associated with a catastrophic collapse of domestic manufacturing, and a poor performance of the agricultural sector. Thus, revisiting the accession agreement to the WTO and regional trading agreements could be fruitful.

The WTO was formed in 1994 by the 'The Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations'. Its purpose was to institutionalise the negotiating process of the General Agreement on Tariffs and Trade (GATT), and extend that process into non-commodity issues. Until the Tokyo round of GATT (begun 1973) governments of developing countries had little role in trade negotiations, as Table 4A.1 indicates.

Out of the Uruguay Round came a series of agreements, including the Agreement on Agriculture. Despite promises by the governments of the developed countries that developing countries would gain from freer trade in agricultural commodities, it was explicitly recognised that some or many countries might suffer losses. In light of this, the Uruguay agreements were supplemented by a document with the rather title, 'The Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Countries'. The negotiation of entry tariffs should be carried out in the context of this document and the 'Special and Differential Treatment' provisions for developing countries.

### Policy Flexibility

Over half a century ago a famous trade economist pointed out that negotiations over liberalising trade, the stated purpose of

the WTO, involve a fundamental contradiction: if, as economists argue, free trade benefits all trading partners, there should be no need for negotiations to achieve free trade; each government should liberalise trade unilaterally. The resolution of this apparent contradiction is 1) all countries do not benefit equally and some not at all under actual trading conditions; 2) the WTO as an institution does not seek free trade, but the regulation of trade under rules that benefit some countries more than others; and 3) unlike its predecessor the GATT, the WTO has expanded into non-trade issues such as copyrights, investment rules, and public sector procurement.

The goal for Zambia in its membership of the WTO is to achieve the best outcome for the development of the country, which includes maintaining as much policy flexibility for the future as is possible. While the specific agreements that were made at accession remain important, equally important is for the government to have the flexibility to change policies when circumstances change. The WTO allows for this. Some critics of the WTO argue that the organisation severely restricts the policy options of a member. It is specifically argued that WTO rules leave a government unable to pursue an effective industrial policy. This argument is true only if the government of the joining country concedes its flexibility. Under WTO rules there is considerable flexibility for industrial policy if a government wishes to pursue it.

### Least Developed Country Status

The WTO makes no distinction between developed and developing countries. However, there is a category, 'Least Developed Countries' (LstDCs), and a country that falls into this category, which Zambia does, achieves considerable policy flexibility.

The Decision on Measures in favour of Least-Developed Countries establishes, among other

things, that these countries will not be required to undertake any commitments and concessions which are inconsistent with their individual development, financial and trade needs. [[http://www.wto.org/English/docs\\_e/legal\\_e/Ursum\\_e.htm#Agreement](http://www.wto.org/English/docs_e/legal_e/Ursum_e.htm#Agreement), p. 3, emphasis added]

One aspect of the favourable treatment of LstDCs is that they are allowed an extended period for implementing the policy changes to which they agree in their accession negotiations. Perhaps the most important concession to LstDCs is their exemption from the prohibition on export subsidies. The WTO rules identify three categories of subsidies, those that are prohibited, those that are 'actionable', and those that are not actionable. The second type, 'actionable', can be defended on grounds that they do not harm trading partners. In practice the seriously binding category is the first, 'prohibited' subsidies. The two major types of prohibited subsidies are those linked to export performance, and those that encourage use of domestic inputs rather than imported ones. LstDSCs are exempt from the rule on prohibited subsidies:

The agreement recognizes that subsidies may play an important role in economic development programmes of developing countries, and in the transformation of centrally-planned economies to market economies. Least-developed countries and developing countries that have less than \$1,000 per capita GNP are thus exempted from disciplines on prohibited export subsidies, and have a time-bound exemption from other prohibited subsidies. For other developing countries, the export subsidy prohibition would take effect 8 years after the entry into force of the agreement establishing the WTO, and they have a time-bound (though fewer years than for poorer developing countries) exemption from the other prohibited subsidies. [http://www.wto.org/English/docs\\_e/legal\\_e/ursum\\_e.htm#Agreement](http://www.wto.org/English/docs_e/legal_e/ursum_e.htm#Agreement), p. 10, emphasis added]

It would appear that this exemption applies to subsidies in place at the time of accession; that is, new subsidies cannot be added once a country is a member. However, WTO rules allow for policy changes in the interest of national development, and in response to changed conditions. The

government of Zambia could give consideration to reviewing its WTO accession agreement in the context of introducing a purposeful industrial policy consistent with the flexibility allowed for Least Developed Countries.

### Regional Trading Agreements

In practice regional trading agreements are more likely to bestow benefits across members the more similar the members are in levels of development. The enormous gap between the levels of development of Zambia and South Africa is and will remain a major source of tension between the two countries in their trade. Changing the trade agreement with South Africa would be considerably easier than doing the same within the WTO. A fundamental principle of all commercial relations between countries is that all governments pursue their national interests. Given that the government of Zambia seeks to develop an internationally competitive agricultural sector, it could consider reviewing the trade agreement with South Africa. Treaties, including trade treaties, should be honoured. However, honouring such treaties need not preclude altering aspects of them in a country's national interest.

Table 4A.1: GATT negotiating rounds:

Round	Date	Countries
Geneva	1947	23
Annecy	1949	33
Torquay	1950	34
Geneva	1956	22
Dillon	1960-61	45
Kennedy	1962-67	48
Tokyo	1973-79	99
Uruguay	1986-93	118