INSTITUTE OF SOCIAL STUDIES

ZAMBIA'S EXPORT DIVERSIFICATION:PROBLEMS.

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LIST OF TABLES AND ABBREVIATIONS.

ABBREVIATIONS

BOP	Balance of Payments
CSO	Central Statistical Office
DC	Developed Country (ies)
EPP	Economic Policy and Planning
FNDP	Fourth National Development Plan
GDP (Y)	Gross Domestic Product (Income)
IMF	International Monetary Fund
INDP	Interim National Development Plan
ISI	Import Substitution Industrialisation
ISS	Institute of Social Studies
LDC	Less Developed Country (ies)
MNC	Multinational Corprration
NCDP	National Commission for Development Planning
OECD	Organisation of European Countries for Development
PCT	Product Cycle Theory

PIC	Prices and Incomes Commission
PTA	Preferential Trade Area
SADCC	Southern African Development Co-ordination Conference
SDR	Special Drawing Rights
UN	United Nations
UNCTAD	United Nations Commission for Trade and Development
US	United States
ZCCM	Zambia Consolidated Copper Mines
ZIMCO	Zambia Industrial and Mining Corporation

OTHER

Kwacha is the Zambian currency.

DEDICATION

Dedicated to my wife,
Chintu and my little daughters,
Chisha and Bupe,who endured the agony
of missing me for such a long time,and to
the memory of my late daughter,Kapembwa.

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W.K.M.

CHAPTER I.

1.0.GENERAL FRAMEWORK.

1.1.Introduction.

A recurrent theme in discussions of the relationship between international trade and economic development is the importance of the problems created by the fluctuations and decline in the export earnings of Less Developed Countries (LDCs).Among the possible explanations of this problem is the issue raised concerning the concentration of exports.Typically,most LDC's exports are characterised by dependence on a narrow range of primary commodity exports.Therefore,this concentration of exports is always thought to be risky.Concentration reduces the chances of autonomous economic development in that export earnings fluctuations have adverse effects on domestic investment and hence on economic growth.For this growth to take place,the LDCs need additional amounts of resources,particularly foreign exchange since LDCs' economic development is not self-sustaining as questioned by Goulet (Goulet,1977,p.125).To obtain this foreign exchange,these countries engage in international trade.

It should also be emphasised here that in classical thought,international trade was regarded as the 'engine of growth' since it avails the trading partners with additional resources which could be used to increase investment in the economy which in turn could contribute to higher output and hence higher income.

1.2.Statement of the Problem.

More often than not,LDCs have found themselves in very serious economic problems which have even retarded the much sought after growth.These problems have originated partly from endogenous factors and partly from exogenous factors.Suffice it to say that these factors have very often resulted in the shortage of foreign exchange which as noted above 'lubricates' the engine of growth.

One important feature of LDCs trade composition in their quest to earn the much needed foreign exchange,is that they have tended to depend more on the export of primary commodities. But it is believed that primary commodities in general tend to display low price elasticities of supply and demand, which means that their supply (commodities) cannot be immediately increased or decreased when there is an increase or decrease in the price. One reason for this is because of long lead times that primary commodities take to come into full production. So, producer countries cannot quickly take advantage of the price changes. Similarly, demand for these commodities is relatively inelastic both in the short-run and the long-run. This aspect of the demand thus contributes to the commodity price variability. Therefore, the net result of such limited price responses is the loss of revenue to the producing countries.

The other feature is that prices of primary commodities have tended to fluctuate more violently than those of manufactures and the trend has more often been in a downward direction. The fluctuations in prices bring about instability in the economies of the producing countries such that economic planning by the government and industry is rendered difficult. And since usually there is a downward trend in commodity prices, revenue from these exports tends to decline over time.

The problem of fluctuating earnings from commodity exports has been more pronounced in cases where countries depend very much on earnings from single leading commodity exports. Therefore, we have a problem of export concentration as pointed out by Smith and Toye who observe that most poor countries relied for their export earnings on overseas sales of two or three products.[1] Furthermore, this problem coupled with rapid increasing import prices creates a net result of BOP deficit which in LDCs has become chronic.

Therefore, a policy of diversifying exports has been widely espoused by post-colonial governments as a means of spreading risks involved in short-term fluctuations in export receipts. This has often been a primary objective in the development

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[1] Smith, S., and Toye, J.; Three Stories About Trade and Poor Economies, in The Journal of Development Studies, vol. 15. No. 3, April, 1979, p. 13.

process since mono-product dependence often leads to a precarious foreign exchange position.As far as this is the case,some diversification out of the traditional primary commodity exports into either secondary products or non-traditional primary commodity exports is clearly desirable.A diversified industrial structure which is capable of supplying a significant proportion of its own requirements is seen by many as a prerequisite of a self sustaining programme for long run growth.In addition, diversification becomes especially important in adjustments to changes in the external environment.It makes the economy less vulnerable to future shocks.(Meijer,1990,p.658).

1.3.Research Questions.

In the light of the above stated wide problem,this paper focuses on Zambia which finds itself in precisely the same position,and hence vulnerable to external shocks.Zambia is a country dependent on a single leading commodity export and has eventually found itself in a crippling foreign exchange crisis which has raised the need for export diversification.But the question being investigated is,can Zambia meaningfully diversify it's export receipts? If so to what extent can it achieve this objective? As the latter question suggests,this paper focuses on assessing the feasibility of the objective in the Zambian context.In other words,the inquiry delves into the problems of achieving this objective in Zambia despite its adoption as a legitimate policy objective.

1.4.Paper Lay out.

This subject is approached from the trade point of view because increased production of traded goods makes the economy less vulnerable to changes in the external environment. International trade has often been called the engine of growth in line with the Smithian view.Trade can promote growth by putting into more productive employment resources which otherwise would have found only less productive employment.Therefore,growth is a gain from opening up trade.

Since most countries strive to expand exports,increased exports for a country assist in realising efficiency gains in resource allocation and they also augment financing various development objectives.Expanded exports assist in achieving sustainable balance of payments and in meeting the external debt obligations.These have beneficial effects on growth of income and/or output.

Our research problem is tackled through six chapters.The first chapter presents the general framework in which the problem is defined.Chapter two reviews the theoretical background and in this chapter,an eclectic approach is taken to illuminate properly various aspects of the Zambian economic structure.But effort is made to link them in order to define properly the problem.
Chapter three reviews the Zambian economic situation and tries to identify which policies if any have been used to promote and/or hinder exports.This chapter identifies the historical perspective in which the analysis is located.

Chapter four identifies the fact that in fact trade,and especially for our purpose,exports,are hampered and/or promoted by the application of various trade and domestic policies.In this chapter some of these policies are identified and reviewed and then the Zambian situation is presented to assess how far it has gone in promoting and/or hampering these exports.Chapter five assesses the feasibility of the objective of export diversification in the Zambian context and explores whether it can be achieved to a meaningful degree,while chapter six presents the conclusion in terms of summary,findings and some policy implications.

CHAPTER II.

2.0.THE THEORETICAL BACKGROUND.

2.1.Introduction.

This chapter forms the background in understanding issues as they manifest themselves in Zambia.In this respect,relevant theories that contribute to this understanding are presented. Since,as pointed out earlier,an eclectic approach is taken in this chapter,we briefly review five theories which are relevant to the understanding of issues underlying the Zambian economic structure.

Since we are approaching the problem from the trade point of view,we inevitably have to present those theories that explain why nations trade.One such theory is the Principle of Comparative Advantage.Thus this principle is reviewed in the following section while in section 2.2.1,the role of demand and the terms of trade in explaining the benefits of trade are presented.This section identifies why trade is beneficial.

While in classical trade theory,trade was seen in free trade perspectives,the structuralists observed that,in fact,this is not the case.This view point is discussed in section 2.3.In sections 2.4 and 2.5,import substitution,the staple and Dutch disease theories are briefly reviewed respectively while section 2.6 presents the product cycle theory.

2.2.Comparative Advantage.

Countries in general engage in trade.But why do they trade? Since it is virtually impossible for each individual country to provide itself with all the consumption requirements,it is profitable to engage in those activities for which they are best suited or have a 'comparative advantage.' According to this principle,the basis or condition of international trade is the concept of relative costs and price differences.It argues that gains from trade still accrue to both sides,"as long as the price ratios differ at all between countries in the absence of trade," and hence, "every country will have a comparative advantage;an ability to find some good which it can produce at lower relative cost disadvantage than other goods." (Kindleberger and Lindert, 1978,p.21).

But the question is,who exports what? The answer,according to this principle,lies in relative cost advantages and disadvantages.A nation will export what it produces at lower relative cost and import what it can produce at higher relative cost.This phenomenon,therefore,brings about specialisation.This specialisation and comparative advantages have been used by economists to explain the exchange of goods between individual nations.

A variant,though built on the same premise,of the comparative advantage principle is the Heckscher Ohlin theory.The main concern of this theory is to explain why productivity differed across nations.It stresses the role of factors and argues that each nation is endowed with a unique set of factors of production and countries tend to concentrate on the industries using large amounts of the factors that are in abundance.The extensive use of the cheap factors of production gives a country a comparative advantage in the production of certain types of commodities.Hence a country is supposed to export commodities that can be produced by its abundant factors of production and so will be relatively cheap.Factor differences are said to be the fundamental cause of inter-regional trade,however,relative to demand.More simply,it argues that a country adapts its production to its endowment of the factors of production.

The implication of this variant is that capital abundant countries will specialise in the products that utilise capital intensively in their production while labour and/or land abundant countries will specialise in such products that are labour intensive.Therefore,capital abundant countries would export some of the capital intensive products in exchange for labour intensive products which they can produce least efficiently. Similarly,labour abundant countries would export some of their labour intensive products in exchange for capital intensive products.

An important point to note is that the theory of comparative advantage concentrates on the supply side in determining the price level but ignores the demand condition which also has a role to play in explaining how beneficial trade could be.Let us now look critically at this aspect.

2.2.1.The Role of Demand and the Terms of Trade.

Since in the market place demand and supply together determine both the quantities of goods bought and sold and their relative prices,it is an unaccomplished task to focus on supply only as does classical theory.

The concept of comparative costs is indeed valuable.Costs influence prices and to some degree the volume and direction of trade.But the important matter of how gains from trade accrue clearly hangs on what the price will be,and we cannot ascertain this by referring to supply alone.Therefore,according to Mills, "if,therefore,it be asked what country draws to itself the greater share of the advantage of any trade it carries on, the answer is,the country for whose productions there is in other countries the greatest demand. ...it gets its imports cheaper, the greater the intensity of the demand in foreign countries for its exports." (Mills,1920,pp.591-592).In other words,the profitability of exports depend on the intensity of their demand in foreign countries.This demand intensity brings in the issue of demand elasticities.Demand is dictated by tastes and incomes of users of the product and these constrain how the quantity demanded will react to changes in prices.Therefore,demand may be relatively elastic or inelastic,and the degree of elasticity varies from one commodity to another as well as from time to time and place to place.

The German economist,Ernst Engel observed the shifts in demand and related them to economic growth and this culminated in what is now known as Engels Law which states that if demographic variables (family size and composition)are held constant,a rise in income will lower the consumer expenditure spent on food (commodities).It means that as per capita income grows with economic growth,demand should shift increasingly against food (commodity) producers with the lowest income elasticities of demand, especially producers of grain and other "staples"." (Kindleberger and Lindert,1978,p.61).In short this law tells us that demand shifts against food,and causes the price of food to drop on world markets relative to the prices of luxuries,including most manufactured goods.In retrospect,demand shifts against most primary commodities and causes their prices to decline.

This demand variability compounds what is known as the commodity problem which is a problem of both short run commodity price fluctuations in international markets and secular movements in the terms of trade of many primary commodities which are predominantly in a downward direction.Price fluctuations are more pronounced in primary commodities because they tend to display low price elasticities of demand (and supply).As seen above, demand is compounded by income elasticities of the end products to which these commodities serve as inputs.The cardinal point therefore,is that demand for these commodities is derived demand.

On the supply side,supply depends on the technical nature of production and on the time span between investment and production such that even higher prices may not elicit an immediate response because of the long lead time required.

Demand is also crucial in determining prices and/or the terms of trade and it is clear that the effects of world trade on domestic output and consumption depend heavily on the international price ratios that are established -the ratio of a country's export prices to its import prices,the terms of trade.It is common practice to speak of a rise in a country's terms of trade as favourable.If for instance foreign demand for a country's exports and foreign supply of a country's imports shifts outwards,this indeed is favourable and a country gains more from exporting.

In section 2.2,we have dealt with the orthodox trade theory which postulates free trade.While trade is viewed as beneficial in a free trade context to the trading partners,problems arise in the relationships with the international economy as Cooper puts it that,"we must expect that any really significant changes in the way the international economy operates will very likely affect both policy and the actual passage of events in developing countries.And that it has done pretty plainly." (Cooper,in de Gaay,1982.p.24).

In fact,this aspect led,in the 1950's and the 1960's,to the emergence of various writers from the third world who saw that the national and international economies were not working according to orthodox trade doctrine.This was the emergence of the structuralist thinking about international trade and economic development theory in general.In the following section we tackle the structuralists' approach to international trade.

2.3.The Structuralist and/or Unequal Exchange Theory.

The idea that trade should follow comparative costs has not always proved popular with development economists especially in countries exporting primary products such that a whole challenge to orthodoxy has been expounded.The challenge was sounded by the Argentine economist Raul Prebisch and others in the 1960's.They argue in general that primary exporting countries,particularly those that were less developed,were not gaining and would not gain from expanding their agricultural and mineral exports. (Kindleberger and Lindert,1978,p.70).The analysis is structuralist in nature as,"it takes institutional and the behaviour of its members in resource allocation as foundation stones." (Bliss, in Chenery and Srivanasan,1989,p.1195).Bliss further notes that,"Probably it is not an excessive simplification to say that where international trade is concerned, the importance of structuralist message is that prices are poor and unreliable allocators,either because they are not flexible enough,or because,even when they do change,the quantity responses that they elicit are too small in extent or undesirable in kind." (ibid,p.1195).

On a more general note,the cornerstone of structuralism is the centre-periphery paradigm which attempts to explain the unequal nature of the world economic system.The 'centre' is the developed countries while the 'periphery' is the less developed countries.Structuralism notes that,the process of development and underdevelopment is a single process and that the disparities between the centre and the periphery are reproduced through international trade.International trade not only perpetuates the asymmetry between centre and periphery but also deepens it.Thus,the periphery's development problems are located within the context of the world economy.(Kay,1990,p.5).By reforming the international and national capitalist systems,structuralists think,it is possible to overcome underdevelopment.

Structuralists further note that in the periphery new technology was largely imported and mainly confined to the primary-commodity-producing export sector.As a consequence,a dualist economy developed composed of the modern export sector and the traditional subsistence sector.The periphery's economy also became disarticulated because it had to import the advanced technology and the necessary intermediate inputs.In the process the periphery's terms of trade deteriorated.

In view of these obstacles,their removal requires therefore structural reforms of a social,political and as well as economic kind.Their policy recommendation included a proposition of import substituting industrialisation (ISI) strategy for the periphery. That is,the periphery should concentrate more resources on expanding their industrial activities and less resources on expanding output and exports in their primary sectors.They also proposed increased wages in the primary sector and to defend primary commodity prices through concerted international action, and to press for the reduction or elimination of protection for primary commodities in the centre.(ibid,p.6)

Since the structuralist policy recommendation leaned heavily on import substitution industrialisation,and most LDCs including Zambia widely adopted it,it is therefore imperative that we look closely at its theoretical background.This allows us to realise its merits and de-merits.Thus the following section is devoted to ISI.

2.4.The Theory of Import Substitution Industrialisation (ISI).

Import substitution as Chenery defines it,would not take place unless there were some change in comparative advantage during the process of economic development:it therefore is classified primarily as a supply rather than a demand effect.Changes in supply conditions,resulting from a change in relative factor costs as income rises,cause a substitution of domestic production for imports.These supply changes are more important in explaining the growth of industry.

Since in the short run,it allows a very rapid industrial growth,it is expected to produce a sufficient dynamic change in the economic structure of the country.

But this supposedly dynamic change depends on how the strategy is adopted or implemented.The typical strategy is to impose widespread protection through the imposition of high tariffs,quotas,exchange controls,etc.

The widespread adoption of ISI was an attempt to industrialise newly independent countries through increased production of manufactures and/or expanded industrial activity as opposed to the high dependence on primary commodity production.In view of this,need to explain why industrial activity and consequently,trade,take place arises.This can therefore be best explained by product cycle theory.At this point let us discuss this theory.

2.5.The Product Cycle Theory (PCT).

This theory concerns itself with the product development process which tend to reflect demand and the production conditions of the home market."Once a new product has been introduced and has gained some acceptance in the home market,its export to foreign markets -especially those with similar tastes and income levels-normally follows." (Snider,1970,p.108).

This essentially means that products pass through stages.In stage one,the risks involved in innovating a product are very high.So the innovator is inclined to provide risk capital only in markets with which he is familiar.Stage two is the expansion stage.Here demand for the product has expanded and therefore standardisation of the product takes place.At this stage the product can now be exported.Stage three is the maturity phase of the product.This is the advanced stage of standardisation and innovators are looking for a low-cost source of supply.This is the stage when production of the product shifts to low-cost foreign markets.

We have seen how comparative costs (advantages) shape trading needs of countries.But also implicit in this principle is the fact that countries' trade centre around commodities/goods that the country specialises in,which for our purpose we can call 'staples'.Further,countries like Zambia depend heavily on single commodity production for export and this is the commodity that shapes the country's economic development.In view of this then the staples theory can help explain and/or illuminate on our problem in cases like the Zambian situation.Connected to this is the fact that economies go through cycles of booms and recessions.For our purposes,during boom periods,exports of these 'staples' are supposed to handle symptoms of the Dutch disease.Hence presentation of the latter theory is also imperative.

2.6.The Staple Theory and the Dutch Disease.

The fundamental assumption of the staple theory is that staple exports are the leading sector of the economy and set the pace for economic growth.The limited-at first possibly non-existent-domestic market,and the factor proportions-an abundance of land relative to labour and capital-create a comparative advantage in resource-intensive exports,or staples.Economic development will be a process of diversification around an export base.The central concept of a staple theory,therefore,is the spread effects of the export sector,that is,the impact of export activity on the domestic economy and society.(Watkins,p.114).

The Dutch Disease is the phenomenon that export boom in natural resources causes domestic deindustrialization in the sense that it causes a relative shrinkage in the domestic manufacturing industries (traded goods industries) and a relative expansion of service industries (non-traded goods industries).

In this chapter,various theories have been presented starting with the principle of comparative advantage which attempts to explain why nations engage in trade.Since the implicit assumption of this theory is free trade,structuralists saw that trade was not working according to this principle and hence a challenge to classical trade theory was raised.

The other theories,i.e.the staple,the dutch disease and import substitution theories attempt to illuminate the internal economic situation in Zambia.They show that,there is a leading export 'staple' and that when Zambia had enough resources,it did not re-invest them productively.Zambia only settled for an import substitution strategy.The PCT focuses on the possibility of developing manufactured exports.

Having reviewed the theoretical background,the next chapter focuses on the actual situation.That is,an economic overview of Zambia.

CHAPTER III.

3.0.AN OVERVIEW OF THE ZAMBIAN ECONOMY.

3.1.Introduction.

At independence,Zambia inherited one of the buoyant economies in sub-saharan Africa though it was based precariously on copper as a 'staple' commodity,but since the 1970's it has led the Zambian economy to be caught up in an inevitable downward spiral, characterised by stagnation and failure.This phenomena can be understood if the circumstances are put into an historical context.

Therefore,this chapter starts by looking at the colonial patterns of development in section 3.2.In section 3.3,the situation in the post independence era up to the end of the 1970's is identified while section 3.4 deals with the 1980's.Section 3.5 presents the nature of the export sector.The impact of copper earnings instability and the need for diversification are discussed in section 3.6.

3.2.The Colonial Background.

Zambia became a full fledged British colony in the mid 19th century but it was not until the early 20th century that British intrusion brought with it far reaching consequences for an independent Zambia,and for our purpose,the major events that influenced the direction that the economy would eventually take could be enumerated thus:

The failure to discover mineral resources early,led the British colonial authorities to treat the inhabitants as a labour reserve for exploitation.Thus,in 1903,they imposed a three shilling hut tax on all adult males which had to be paid in cash and not in kind.Since the collection of this tax was vigorously enforced,it consequently created a body of willing wage labourers and thus migration to the labour markets of Southern Africa and later to the Zambian copper mines was set in motion.The result of this was the impoverishment of the rural areas as able-bodied men left these areas to look for wage employment.

By far, the most important economic development in the colony in the early 1920's was the discovery of vast deposits of copper based on extraction at the expense of development and reinvestment. According to Simson, (1985 p.11), the financial significance of the copper industry for Northern Rhodesia (as Zambia was then known) was as follows: In the forty years before independence, over 400 million sterling generated in Zambia largely by the copper mines was exported to the developed world and Southern Rhodesia-where there were a lot of white settlers. This is one of the reasons that Southern Rhodesia (now Zimbabwe) developed her relatively versatile industrial structure as opposed to Zambia's. In ten years before independence alone, the two copper mining groups, Rhodesia Selection Trust and Anglo-American, sent 260 million sterling in dividends, interest and royalty payments out of the country. In the period from 1923 to 1964, the British South Africa Company received more than 160 million sterling gross and 82 million sterling net from mineral royalties, while the British Treasury collected approximately 40 million sterling in taxes from Northern Rhodesia and spent only 4 million sterling on development. These are substantial amounts especially when one takes into account the value of the British pound at that time when British inflation was very low and the currency very strong.

With the discovery of copper came a rapid industrial expansion especially on the copperbelt. This expansion was accompanied by an inevitable development of agriculture which was geared to the supply of food to the mining sector. "Blocks of land for exclusive use of Europeans were set aside such that by 1930, some 60,000 Africans had been forced to move from the lands that had been reserved for white settlers." (Simson, 1985, p.10). In spite of all this, some Africans had started competing with the settlers in agricultural production. For instance, in 1938, Europeans marketed some 290,000 bags of maize while African producers officially marketed as much as 250,000 bags. This was a well come development in terms of agricultural development, but the settlers viewed it as a potential disaster to their well-being.Hence an ordinance had to be introduced to make 'certain deductions' from the final prices paid to African producers.(Hedlund and Lundahl,p.27).Therefore,the introduction of lower prices and other price differentials effectively discouraged agricultural development among Africans.This,coupled with the hut tax effects led to a total neglect of agriculture among Africans,the symptoms of which are present today.

Another disheartening feature towards the development of the country was the fact that due to racial biases and the nature of the economic activity that was geared to copper extraction,a dual structure in production,education,skills,earnings,etc,developed. For instance,we had a modern mining sector along side the impoverished rural sector,skilled work was the exclusive domain of the white workers while unskilled work was for Africans.In the same vein,high wages were paid to white workers and low wages to Africans while white spending was skewed toward imports,limiting the market for domestically produced consumer goods and the development of captive industries.Education was less actively pursued such that by 1964 there were only 89 university graduates and very few technically experienced nationals.Chenery and Srinavasan,1989,p.1586,sum up the whole scenario thus,"Zambia until 1964 resembled a 'classic export' economy,where skilled labour and management were drawn abroad,unskilled labour came from other parts of the country,transportation systems were arranged solely for the purpose of the copper industry,and linkages to the rest of the economy were weak."

Thus well before independence,some structural patterns were established which would present problems for subsequent structural transformation and continued development of the country.Therefore,the result was that at independence,Zambia inherited a dual economic structure and was faced with a momentous task of restructuring this system left behind by the colonialists.

3.3.Major Policy Issues in the Era 1964-1979.

After independence in 1964,Zambia,inherited significant assets.With the concurrent boom in copper prices which raised fiscal revenues,heavy public expenditure on economic and social infrastructure was undertaken.But there was a general bias against tradables production as more investment was being done in non-tradables.The boom brought into the economy the Dutch disease.The implications of this was a shrinkage in tradable goods production.As government expenditure increased,there was demand pull inflation which is one of the symptoms of the Dutch disease.International competitiveness of tradables declined and diversification away from copper was discouraged as domestic prices and wages increased thus discouraging increased output.

Also nationalisation of public utilities and the acquisition of majority (at least 51%) shares in mining,financial and many manufacturing enterprises was undertaken in this era.This policy was introduced at the Matero 1969 and Mulungushi 1968 and 1970 reforms.This was the birth of parastatals which are state controlled through the mammoth ZIMCO,a parent holding company embracing some 100 subsidiaries. Incorporated in this policy was Zambianisation of all types of economic life.

The Rhodesian Unilateral Declaration of Independence in 1965 and Zambia's efforts to reduce its strong economic links with this dissident neighbour and Apartheid South Africa,coupled with the inherited 'enclave' economic structure,stimulated import substitution industrialisation strategy (ISI).The strategy envisaged industrialisation from the 'top' by producing consumer goods which were being imported,locally.Later,the capital and intermediate industries would develop.The typical strategy was first to erect tariff barriers or quotas on the importation of certain commodities,then try to set up a local industry often in conjunction with foreign capital operating behind tariff walls.

This era ushered in tight trade and foreign exchange control regulations.The latter were increasingly instituted especially in post 1974 period when falling copper prices and world wide inflation led to decreasing copper earnings.Licensing procedures to ration foreign exchange for import purposes,price controls and ceilings on credit were introduced.

It should be pointed out here that,the overall policy options adopted after independence were biased in favour of protection of the domestic economy.Note should also be made that some of the policies adopted were rather political than economic,given the colonial experience.We will see the impact of these policies on export diversification in chapter five.

Since the mining sector was perceived as the most promising one by authorities,lenders and share holders alike,concentration of investment in mining was perpetuated at the expense of sectoral balance.Thus this sector and especially copper continued to contribute significantly to these activities and/or GDP,total export revenues and has continued to do so in terms of revenues but in terms of GDP,its contribution has since declined.The following table demonstrates this point.

Table 1: Sectoral Share of GDP,at constant 1965 and 1977 prices.(1965-1988)

	Unit	1965	1970	1976	1980	1984	1985	1986	1987	1988
Agriculture	%	13.7	13.5	14.3	15.2	16.5	16.8	18.2	17.4	18
Mining	%	41	28.3	23.3	10.3	9.9	9.1	8.6	8.7	8.7
Manufacturing	%	6.8	10.3	10.8	19.2	19.4	20.6	20.7	21.4	22
Electricity	%	0.8	2.1	4.1	3.3	3.5	3.6	3.5	3	3
Construction	%	5.8	4.4	6.7	5.2	4.4	3.8	3.9	3.7	3.4
Services	%	31.9	41.2	41.6	40.9	46.3	48.8	45.3	45.8	44.8

Source;Whiteside,1989,pp.167,169 and Kaul,UNCTAD-PIC Seminar.1989,pp.2 and 4.

GDP mining relative share decline to 8.7% by 1988 while other sectors' share increased except electricity and construction.It can be observed that,from 1965,GDP mining relative share declined from 41% to 8.7% in 1988 while manufacturing trebled its share from 6.8% over the same period.It will be noted that the largest contribution is from services.This is due to the rapid expansion of non-productive investments in public utilities which were undertaken by the government after independence.Though there was an impressive growth in sectoral GDP in this period,"non-traditional exports,however,remained insignificant in relation to mineral exports." (Meijer,1990, p.664).

3.4.Major Policy Issues in the 1980's.

In the 1980's the economy has increasingly been made to operate under purely economic criteria.This was brought about by huge deterioration in the terms of trade.By 1985,the purchasing power of exports,for instance,had dwindled to only 20 per cent of its 1974 level.(UNCTAD,1987).

In collaboration with the IMF and the World Bank,credit ceilings to reduce money supply,ceilings on wage rises,decontrol of prices and interest rates,rescheduling of repayments of external debt,progressive devaluations of the Kwacha and auctioning of foreign exchange were introduced.The aim was to make some exports competitive internationally.But the basic result was widespread unemployment and the resultant galloping inflation as the Kwacha plummeted to its record low.Since the government had deep scepticism about these policy measures,in 1987,the New Economic Recovery Programme (NERP) was introduced with the basic theme of 'growth from own resources'.The main measures were limiting debt servicing to only 10% of the balance of net export earnings as it became progressively burdensome,while the balance was to be ploughed back into productive ventures.This policy also introduced a fixed exchange rate system while introducing an administrative system of allocating foreign exchange.

With the rapid decline in foreign reserves,a rapid expansion of domestic credit to the government,while restraining that to the private sector,has led to significant increases in money supply and adding to inflationary pressures.

3.5.Nature of the Export Sector.

In real terms,however,the mining sector has remained a dominant influence on Zambia's economic development.This is due also to the dominant position it commands in export revenue and foreign exchange earnings.Table 2 below refers.

Table 2.Export of Principle Commodities,in Millions of Kwacha,and Percentage Earnings of Metal and non-Metal products to Export Earnings (b).

Item	1980	1981	1982	1983	1984	1985	1986	1987
Copper	872.4	807.8	749.8	1071.3	1369.5	1960.6	4428.5	6854.9
Zinc	19.6	22.9	26.5	32.2	49	53	99.2	131.1
Lead	6.5	5.1	4.9	5.8	5.4	6.1	15.5	19.8
Cobalt	80.5	39	40.7	46.9	142.4	276.1	358.2	466.2
Tobacco	2.7	4	2.6	2	1.1	3.9	7.1	16.6
Other Exports	17.3	45.7	50.5	43.9	79.2	192.4	412	543.1
Re-Exports	2.9	2.7	5.2	2	4.2	10.4	19.1	26.9
Total Exports	1002.1	927.2	880.2	1204.1	1650.8	2502.5	5366.6	8058.7
Export Earnings(%)	97.72	94.32	93.38	96	94.89	91.75	91.9	92.72
Non-Metal Share(%)	2.28	5.65	6.62	4	5.11	8.25	8.1	7.27
Copper Share (%)	87.1	87.1	85.2	88.9	82.9	78.3	82.5	85.1

Source;FNDP,Table XIII.2 and Table XIII.4,p.196.

** Percentages calculated from absolute figures in this table.*

Table 2 demonstrates that the Zambian export sector in volume and value is dominated by refined metal products and in particular copper.For instance,even by 1987,most export revenues (92%) came from metal earnings while copper accounted for 85% of this.In kwacha terms,most of the exports after 1984,recorded a rapid nominal increase.This is so because the data in this table was measured at current prices,and the 1980's were characterised by severe economic hard ships as illustrated in section 4.2 below.Even the need to restructure the economy has been made to be more agent than ever before.

3.6.The Need for Export Diversification.

By early 1984,copper prices were almost 60% lower than they were in 1974 (World Bank,1984,p.vi).With copper making up the bulk of merchandise exports,Zambia was badly prepared for this shock.Imports and domestic expenditure levels had adjusted to the high levels of foreign exchange earnings that existed before 1975.The end of the copper boom in the 1970's,accompanied by the simultaneous increase in oil prices,marked the start of a steep decline in foreign exchange earnings and its consequent effects on economic development and living standards."With average real copper prices falling by about 50% in the post 1974 period,and given that copper comprises 90% of Zambia's merchandise exports, the Zambian economy has suffered a decline thought to be unparalleled by recent experience in of any other country in peace time." (Simson.1985,p.31).While copper prices were fluctuating downwards,its production costs were increasing not until 1983 when cost saving measures were taken as Zambian copper was losing its international competitiveness.Table 3 below drives this point home.

Table 3.Some ZCCM External trade Indices.

Item	Unit	1980	1981	1982	1983
Average LME Price	cent/pound	92.2	94	67	71.5
Zambia Exp. price	1974 =100	125		80	66
Copper prodn costs	cent/pound	70	80	82	69

Source,Simson,Tables 5.1,5.7 and 5.8,pp.31,38 and 39.
** cent is the US cent;pound is the weight.*
*** Exp. = Export.*

The combined impact of these problems had an adverse effect on the total export earnings especially when measured in dollar terms.Exports declined dramatically while imports also declined as their (imports) prices were rising disproportionately.Table 4 below portrays this phenomenon in dollar terms.

Table 4.Some Economic Indicators in US Dollar Terms.

Item	Unit	1981	1982	1983	1984	1985	1986
Exports	$m	999	942	923	893	780	689
Imports	$m	1069	1004	711	612	570	517
Balance of Trade	$m	-70	-62	212	280	210	172
Current Account	$m	-742	-566	-312	-205	-284	-302
Exchange rate	Kwacha/$	0.85	0.9	1.18	1.62	2.71	7.3
Inflation rate	%	14	12.5	20	37.4	34.4	51.6

Source;Mallet,Africa Review,twelveth edition,1988.p.240 and Thirteenth edition,1989,p.240.

Table 4 indicates the severity of the problem.For our purpose,total exports have consistently been declining while the country has been running a persistent current account deficit. Even when measured in Kwacha terms but at constant 1977 prices,the picture for total export earnings is the same as table 5 below shows.

Table 5.Export Earnings at constant 1977 prices.

Item	Unit	1985	1986	1987	1988
Total Exp	Km	537.8	505.9	476.3	472

Source;CSO,Zambia in Figures,1989.

The high dependence on copper exports directly influences the economic performance because of the relationship to copper prices.Nixson concludes generally that,"there exists an extremely close relationship between movements in export prices and average performance such that movements in the terms of trade and international conditions of demand seem to have been a very powerful impact on the general growth experience of African states through their impact on foreign exchange earnings." (Nixson,in Lawrence,1986,p.36).Of course this is a general African experience of which Zambia cannot be disassociated from.

Simson has measured the movement in the terms of trade and the loss of income for Zambia since 1974.Zambia suffered from extremely adverse shifts in the terms of trade.The following tables indicate this.

Table 6.External Price Indices in terms of Current US Dollars.

Item	1974	1978	1980	1982	1983
Zambian import price	100	151	253	281	273
Terms of trade in respect to import price.	100	40	49	28	31

Average price increase per annum.	*14%*

Source;Simson,1985,p.31.

Table 7.Real value and Growth of some Expenditure Aggregates.(in million Kwacha,

Item	*1974*	*1983*	*% change p.a.*
GDY	*1369*	*1051*	*(-)2.1*
Exports	*670*	*476*	*-3.1*
Imports	*324*	*104*	*-10.6*
Gross Fixed Investment	*359*	*119*	*-11.7*

Source;Simson,1985,p.33.

Table 6 shows that while import prices were continually rising,at an average rate of 14% per annum,the terms of trade were declining.As a result,there was a large loss of income arising from these adverse shifts in terms of trade.Exports declined by 3.1% per annum while there was a massive decline in the real value of imports(10.6% p.a.).(Table 7).This arose from the declining purchasing capability as export earnings declined.Given an 'outward' looking nature of the Zambian economy where virtually all capital stock and intermediate inputs have to be imported,the loss of export revenue also led to gross fixed investments to be crucially affected and hence there was a massive decline of 11.7% per year.

On the whole,copper price fluctuations are detrimental since the extreme volatility translates to wide short-run fluctuations in export and government revenue.This creates difficulties for planners both in government and industry and hence affects attainment of set objectives.On the other hand,the higher the secular trends,the better the economic performance due to increased prospects of foreign exchange earnings which are critical to the development of the nation.(Nziramasanga and

Obidegwu,1985,p.12).

It must be realised that,it is this vulnerability that spurs countries to pursue export promotion policies.However,since we have seen that Zambia employed protective policies for most of her post independence period,it is imperative that we review both the effects of export promotion and protection.Therefore,chapter four looks at protection versus promotion.

CHAPTER IV.

4.0. PROTECTION VERSUS PROMOTION; THEORY AND PRACTICE.

4.1. Introduction.

Trade as argued by the comparative (and/or absolute) advantage doctrine was to be carried on between nations freely as Kindleberger and Lindert (1978,p.107),point out that,"the presumption in favour of free trade is based on a body of economic analysis demonstrating that there are usually net gains from free trade."

But in spite of the convincing nature of free trade arguments,there has been a surprising failure in trade practices to act in accordance with them.In carrying out trade,there has now risen a considerable degree of protection while on the other hand,countries strive to promote their exports.In this chapter,before exploring the alternative in export promotion,the disadvantages of protection as a method of favouring industry and/or the economy need to be discussed.This need arises from the fact that the Zambian economy had been protected for most of the post-independence era.In this context,we review what these tade policies in theory are able to do,then we bring in some evidence from Zambia.

4.2. Protection.

By protection it is meant in a wider sense incorporating the view that nations can restrict their foreign trade by erecting barriers to imports as well as exports. (Patterson, 1948,p.326). Protectionism can also be applied by nations attempting to industrialise.Even though production may be relatively inefficient in the short run,it is argued that there is a long-run national advantage in establishing or extending the industrial base as a necessary condition for economic development assuming that the protected industry will grow and become competitive.

The most prominent policy instruments used for protectionism are tariffs and quotas.There are other instruments like exchange and administrative controls,export duties etc.But for us to be able to understand the disadvantages of protectionism,it is imperative that we analyze the effects of tariffs and quotas since they are the main policy instruments in protectionism.It should be pointed out that quotas have more or less the same effects as tariffs.The only difference is in the degree to which they affect economic variables.

4.2.1.Tariffs and Quotas.

Tariffs can be specific,ad valorem or a combination of both while quotas are quantitative controls.They are imposed on imported commodities for fiscal and protective reasons.Fiscal,in that,governments must find revenue for meeting their expenditures and also correct some national economic imbalance.

Since the immediate impact of these measures is on prices and costs,price and cost differentials in the international price of the commodity affected are initiated.In terms of price differences,the domestic price of the imported commodity goes up thereby reducing demand which finally leads to less imports. Consequently,the import-competing industries are protected. Therefore,in this way these measures bring gains for domestic producers who face competition.But more generally,protective tariffs and quotas hurt the country imposing them as it cannot affect the world price of the imported good since it is a competitive price taker.

However,protective tariffs and quotas increase the output of the product that receives protection by inducing substitution effects.That is,they introduce a home-market-bias which is a distortion as observed by Williamson below.Demand shifts to the protected domestic product.But under conditions of full employment,this increase comes at the expense of a cut in the output of the non-protected goods.Hence,"other things being equal,... it is proper to regard the change in production as a distortion-as something that prevents the marginal conditions for an optimum from being satisfied. ...the value of the resources absorbed in additional production represents a social opportunity cost which ... represents the inefficiency induced by the tariff," (Williamson, 1983,p.79),and quotas.

Considered in terms of cost differentials-absolute or comparative-the effect of protective tariffs is to lessen the cost advantage that may be enjoyed by an exporting country.To the other costs of production including freight and other shipping charges,there is added an import duty.Total costs are higher,the advantage is narrowed,and the volume of exports from the exporting country point of view is narrowed.In terms of individual exporters,these measures increase costs and that they are at a disadvantage compared with other exporters in other countries supplying those inputs on which they pay a tariff. Equally if the input comes from a protected domestic supplier, exporters are at a disadvantage,because the domestic supplier sells his goods at a higher than the import price.

Focusing on tariffs alone,protective tariffs carry the idea that their height is sufficiently great to reduce trade to such an extent as to cause serious economic loss to the exporting (or importing) country.The higher the percentage tariff on a good is,the more protection the tariff gives to the domestic firms producing in that industry.This type of protection reduces the foreign exchange cost of imports below the free trade level.As a result,the rate of exchange will be higher than it would be if trade were free.Consequently,the exporter will obtain less domestic currency for a given quantity of exports than he would under free trade.Thus protection induces a disincentive and hence discourages exports.Little,Scitovsky and Scott conclude that,"Protection discourages exports to the same extent as it encourages production for the home market:so that if there were,say,a 50 percent tariff on imports,it would be necessary to have a 50 percent subsidy on all exports if a bias against exports were to be avoided." (Little,Scitovsky and Scott,1970, p.130).

In determining how the domestic industry (economy) is protected,economists have devised ways such as the calculation of effective rates of protection (ERP)-defined as the percentage by which the entire set of a nation's trade barriers raises the industry's value-added per unit of output in an individual industry.In essence,the ERP measures the degree of protection given to domestic production activities.The ERP increases as the nominal tariff rate imposed increases,and as the nominal tariff rate imposed on imported materials used in the production process decreases.In Zambia,there has been high tariffs on finished manufactured goods of 50 per cent and above and low duties on imported raw materials (30 per cent and less),thereby affording high protection for import substitution industries and thus discouraging exports;low tariffs on imported capital equipment (zero duty),thus fostering high capital intensity;and generally low tariffs on materials and partially finished goods (30 per cent and less),which encouraged consumption of goods with high import content.

Thus we have seen that the most important disadvantage which is inherent in protection of the home market,is that exports are discouraged.This in turn implies that,on average,the size of an industry will be less than if there were no such discouragements of exports.Then,how do we encourage exports? Section 4.3 below answers this question.

4.3.Export Promotion.

Since an exportable surplus does not rise automatically, total domestic production should be subject to a desirable level of export incentives and services.There cannot be a sensible export policy without creating conditions conducive to the growth of the export system.Therefore,this calls for reallocating resources in a manner consistent with dynamic comparative advantage.It should be noted that exports that earn x dollars worth of goods are as valuable as domestic goods which save x dollars worth of goods.

Prior to the 1980s,there was a lack of adequate incentives for the tradables sector in Zambia,but since 1982,there has been concerted effort to introduce incentives for export promotion.In this section,we look at some policy instruments that can be adopted to provide incentives for expansion of non-traditional exports.We look at what they are able to do in theory and then in a later section,we introduce what Zambia has done so far.

4.3.1.Monetary and Fiscal Policies.

The economy can be 'protected' by making economic activities more profitable.The government in this case takes responsibility for seeing that prices broadly conform with the social costs of using resources in productive activities with benefits arising from the goods and services.This is a necessary condition for profits to be the best available guide for economic action.Exports should be put on terms that render their prices proportional to their world prices.This implies not only an appropriate exchange rate but also the provision of profitable incentives and adequate services.This is an immense subject involving the whole realm of public finance (Fiscal) and monetary policies.In this short paper,we cannot be able to deal with all this,but suffice it to say that,in this whole realm,appropriate policy aims at removing distortions.

Since these policies affect domestic economic activity,they could be employed to achieve a desired objective.They could,for instance,be used to stabilise and/or reduce inflation so that exporters are given confidence in their ability to buy imported inputs needed and to sell the resulting products at a profit.As well as exports based on imported materials,these policies,could encourage resource based industries like wood processing,the use of agricultural wastes like maize stalks,cattle horns,etc.

4.3.2.Policy Mixes.

These are in between policies that combine protection and subsidisation.This scheme involves imposing a tariff while at the same time giving a subsidy in some proportion.This proportion could be uniform or not,according to essentiality of the activity to be promoted.

Since tariffs bring about home-market-bias,an optimal policy would require trade reversal with respect to the imported product.Corden,1974,argues that,"when a tariff alone is imposed, manufacturing is only protected. ...when supplemented by an export subsidy,manufacturing is promoted.Protection creates a home-market bias;Promotion avoids it." (p.27).From what we have seen above,in the period 1964-1979,Zambia pre-occupied herself with protecting domestic industry without necessarily promoting it.

4.3.3.Import Duty Drawbacks.

This scheme is meant to let exporters get refunds of customs and excise duty paid on raw materials used in export production.The effect is to reduce the cost to the exporter.The crucial point in providing this incentive to exporters is the non-availability of bureaucratic delays.As long as this is the case,the incentive element is reduced.

4.3.4.Cash Subsidies.

This is a direct ad valorem subsidy on exports and it is meant to raise the profitability of exports.The cash subsidy increases the out put of targeted items which have potential for growth.

4.3.5.Export Obligation Schemes.

Under this scheme,certain types of industries are asked to make compulsory exports of a certain percentage of their capacity so that net foreign exchange earnings could be maximised.It is primarily aimed at luxury producers and it is a move towards the diversion of luxury goods out of the domestic market.The incentive to export are licensing privileges.In case of failure to meet the export quota,the penalty is the loss of those privileges.

4.3.6.Production and/or Export Subsidies.

Production and/or export subsidies are payments made to producers and/or exporters.By so doing,the internal price of the commodity rises and therefore there is an incentive in its production.It is generally argued that,when an optimum subsidy is imposed,the production of the targeted items expand so much that it could begin to be exported.In terms of costs,production/ export subsidies have the effect of lowering the cost to the producer/exporter by the amount of the subsidy and thus encourages more exports.

This type of scheme shifts resources between sectors,out of one sector to the targeted sector,say from the primary exporting sector to manufactured exports.

4.3.7.Tax Rates and/or Fiscal measures.

Since a tax increases costs and hence reduces profitability, almost any form of taxation can distort international comparative advantage.This international differences in taxes has caused many big companies to take advantage of tax havens in order to set shop there and export their goods or services from there.(Kindle berger and Lindert,1978,p.156).Thus,by implication,lower taxes encourage exports as they reduce costs to producers and/or exporters.Domestically,measures like exemption from sales tax on final sales and refund of indirect taxes on inputs and outright subsidies are a major fillip in the export drive.

Under this scheme,another important incentive for exports is remission of tax on export earnings.This is meant to raise exporters' revenue with a view to making exporting business profitable.

4.3.8.Special Freight Rates.

This arrangement entails commodities destined for export markets to be charged lower transportation rates than those for commodities to be sold domestically.The exporter is given lower costs,at least for the domestic part of the journey.

4.3.9.Currency Retention Schemes.

The exporters could use a given percentage of their export earnings to import a specified list of raw materials.This should be substantial enough to elicit an incentive response.

4.3.10.Devaluation.

Depreciation,or devaluation as it is more commonly known,is said to take place when the value of the domestic currency is set relatively lower in terms of foreign currency.In other words,it involves an increase in the price -the exchange rate- of the foreign currency.Depreciation is resorted to when the domestic currency is appreciating or over-valued because appreciation or an over-valued currency is said to discourage exports.

Devaluation induces foreign and domestic responses in the demand for and supply of imports and exports because relative prices are altered.It means that imports become expensive domestically and domestic exports become cheaper abroad.Exports, therefore,become more competitive abroad.In this way depreciation stimulates the production of exports as it becomes more profitable to export.

At this point it is imperative to note that the Zambian tradables sector was inter alia,hampered by an overvalued exchange rate.Between 1979 and 1982,the exchange rate was fixed to the SDR,resulting in a real appreciation of more than 11 per cent in these years. (Meijer,1990,p.667).As we shall see later,devaluations became the dominant policy instrument in trying to discourage imports and promote exports.

4.3.11.Other Exchange Rate Policies.

The exchange rate of a country can be fixed,pegged or made to float.As seen in the above policy instrument,since the rate is the price of a domestic currency in terms of foreign currencies,the system under which the local currency relates to other currencies will influence the competitiveness of the domestic exports.Exchange rates determine the value of the domestic currency in terms of foreign currency.When the exchange rate over-values the domestic currency and is seen as discouraging exports,measures to 'devalue' the currency through the exchange rate mechanism are taken.Such measures may include either the floating of the rate or auctioning of the foreign currency itself.Both measures have the effect of ensuring that the rate is fully responsive to changes in demand and supply of foreign exchange.By so doing it reflects the true value of the currency and the immediate impact of these measures for an over-valued currency,is to devalue it.For the same reasons then,as in devaluation,exports will be encouraged.

4.3.12. Domestic Materials at International Prices.

This scheme entails that certain priority sectors are given subsidies equal to the difference in the cost of local and international prices of inputs and suppliers of these materials are not ordinarily allowed to import these materials.

4.3.13. Other Promotional Policies.

These include proper provision of those services which often exporters and producers cannot efficiently provide for themselves because of economies of scale, or other reasons. These include the obvious infrastructural items such as general education, roads, telephones, water, etc. They also include provision of management and accounting schools, technical and research institutes, extension services, etc, which should be self financing. It is said that, it is more of a discouragement that something is not available, than that it is expensive.

Other promotional policies include encouragement and if necessary institution of an adequate capital market, where this has failed to develop naturally; provision of export credit, export guarantee, insurance and revolving funds schemes and institutional policies like setting up export banks and Export Boards to disseminate export information.

4.3.14. Strategic Trade Policy.

Strategic trade policy endeavours to shift responses in other countries to the home country's strategy. Grossman, in recognising the benefit of strategic policy making argues that, " 'we' may be able to choose some active policy or menu of active policies, contingent on foreign responses, that would shift optimal policy abroad and generate outcomes more desirable to 'us' than those obtaining under policy independence." (Grossman, 1985, p.24). For instance, in imposing tariff structures, other nation's tariff structures should be taken into consideration. If the tariff abroad is at some positive value, strategic policy could be to set the home country's structure lower than that of the foreign country since the foreign tariff diminishes the demand for the home country's exports. Lower tariffs will reduce the foreign country's cost of 'our' exports.

It is beyond reasonable doubt that Zambia employed protective policies for most of her post independence period rather than utilising most of the above enumerated measures. However,with pressures of economic difficulties and the realised exhaustion of copper reserves,export diversification has in the 1980's received a major impetus in the form of increased export incentives.We therefore review what this effort has meant and how far it has gone.

4.4.Zambia's Export Promotion/Diversification.

The Zambian export diversification need was appreciated as far back as the first interim and national development plans of 1965.Though its importance was so glaring,it received only lukewarm support but it is in the 1980's that its importance has assumed massive proportions.Whether it can be achieved meaningfully will be the task of chapter 5.

This effort has involved the promotion of exports away from copper.These exports have come to be known as known traditional exports which are,"categorised as agricultural and industrial products." (INDP,May,1987 to December 1988,p.52).In broad terms, they are all exports which are non copper and more specifically,non-ZCCM exports.ZCCM is the state mining conglomerate which also exports cobalt,zinc and lead apart from copper.Interesting enough,even this conglomerate has started agricultural ventures to support the diversification effort.

In recognising the importance of export diversification, the government introduced a number of policy and institutional measures.In terms of what they are able to achieve,these measures should be understood in the context of the theoretical grouding for export promotion provided above in this chapter.They included the setting up of:the Export-Import Bank to encourage non-copper industries and check on under and over-invoicing to ensure all and the right value of export earnings are brought in the country;the export revolving fund,the export guarantee scheme to assist exporters financially and guarantee their earnings respectively.And realising the importance of market

information,the Export Board of Zambia was set up to provide trade information to potential exporters.
Other institutional policies include resuscitating public investments,land tenure,provision of public services at a fee and institution of a capital market.As regards tariffs,the government with the help of the World Bank intends to carry out a comprehensive review of the current tariff structure and its protective effects to produce an appropriate basis for future modification of rates.

There has also been the introduction of other incentives.For instance,a scheme which allows exporters of non-copper exports to retain automatically 50% or more of their export earnings as an inducement was established.This has by far been the major step.With demand for foreign exchange far in excess of supply, this is the most telling incentive available.Export subsidies were introduced in the INDP and under the industrial development act of 1977 and the investment act of 1986,non-traditional exporting industries or those that use intensively local materials,substantial relief on various taxes and preferential interest on borrowing and tax rebates on imported inputs used for exports production were introduced.Preferential treatment for import licences,adjustment of export duties and various exemptions were also introduced,while the investment council has been formed to identify and co-ordinate priority investments.Liberalisation of prices in both agriculture and industry to let them respond to market forces has been introduced.

Devaluations at various times were undertaken and by the end of 1985,the government decided on a major policy change which implied a further liberalisation of the economy including abolishment of quantitative restrictions and import licences in some cases (where exporters/importers had their own funds abroad),decontrol of interest rates and the phasing out of price subsidies.The major policy change was the introduction of a weekly foreign exchange auctioning to re-align the currency. (Meijer,1990,p.678).In early 1990,a two tier exchange rate system was introduced while in November 1990,the administrative allocation of foreign exchange was abolished.

In agriculture, priority,at least on paper was given to small-scale farming while incentives were given to commercial farmers to turn to more export oriented production.Producer prices have been increased,though maintaining equity pricing while the marketing system has been liberalised.

With the introduction of these various measures,it was observed that non-traditional exports were increasing as acknowledged by the FNDP that,"by 1988,a notable development is the increase in the share of receipts in non-traditional exports.They,however,constituted only 5% of the total value of exports in 1984 and that between mid 1987 to december 1988,they earned over US$ 100 million." (FNDP.pp.196 and 198).But if we disaggregate this figure by commodity earnings as the Bank of Zambia data shows,we get a very interesting picture.Of the US$ 139 million earned in that period,significant contribution came from the following products:Copper products contributed the bulk of the earnings at US$ 5.9 millions;Tobacco,US$4.3 millions; sugar US$4.3 millions and cotton sheeting,US$2.7 millions. Miscellaneous manufactures brought in a paultry US$0.013 millions while spares and equipment brought in a total of US$0.218 millions.The rest of the amount came from various exports which contributed between a range of as low an amount as US$ 81.0 and US$ 2.0 millions.

The most important point to note is that even in non-traditional exports,the bulk of the earnings come from primary commodity related exports,and still copper dominates the scene. Therefore,at this point one question is opportune.Although it appears as though Zambia has a promising future for non-traditional exports, overall,how has the diversification effort fared?

Largely,this effort has not been very successful although there has been some minor achievements.Table 8 below shows how far this objective has been from being achieved.

Table 8.Zambia's Export Concentration and Diversification Indices, (1970 to 1985).

	No. of commodities exported (1)	Diversification index (2)	Concentration index (3)
1970	22	0.963	0.952
1985	30	0.948	0.844

(1) Include leading exports of greater than $50,000 value in 1970 and $100,000 in 1985 or more than 0.3% of total Exports.
(2) Values 0-1:the lower the index, the higher is diversification; the higher the index,the lower is diversification.
(3) Values 0-1:the higher the index,the higher is concentration.

Source;UNCTAD,Hand book of International Trade and Development Statistics,1988,p.234.

Thus according to UNCTAD statistics,export concentration only eased marginally from an index of 0.952 in 1970 to 0.844 in 1985.Similarly,export diversification was only marginally achieved as shown by the diversification indices of 0.963 in 1970 and 0.948 in 1985.

Comparatively,of the 147 developing countries and territories surveyed by UNCTAD,in 1970,59 countries were with a diversification index above 0.9 and Zambia was among them while in 1985,44 countries including Zambia had a diversification index above 0.9.The question is why has this objective been so elusive or in other words what have been or are the problems in achieving export diversification in Zambia? This is what chapter V below sets out to explore.

CHAPTER V

5.0.EXPORT DIVERSIFICATION:PROBLEMS.

5.1.I.Introduction.

Export diversification is a noble objective desirous of every nation which finds itself in the situation outlined above.A lot of policy discussions towards its achievement have been churned out by economic experts and especially the world bank and the IMF experts.But one must recognise that export diversification,though noble,is an elusive objective in countries like Zambia which are structurally rigid and thus face momentous problems.These rigidities arise from historical patterns of economic development and they involve such issues as the dual structure of production,and high dependence of most industries on imported inputs,and the supply constraints related to the mineral dependent structure of the economy which prevent short-run supply responses in the production expansion of tradables. These make it difficult for industries to adjust rapidly in case of changes in the economic climate, especially if there is a lack of foreign exchange.Other rigidities involve such issues as limited resources,poor climate and soils,antiquated rural institutional,social and economic structures.

It is recognised in Zambia,that export diversification in both agriculture and industry is among some of the strategies needed.However,export diversification is constrained.These constraints can be categorised as both general and sector specific.Thus in this chapter we proceed in that manner.In section 5.2,we tackle general constraints and then proceed to sector specific ones.

5.2.General Constraints to Export Diversification.

These constraints can best be understood if the analysis is located in the context of the Zambian national economic structure and its position in the world economy.From these two perspectives,one can conveniently analyze the impact of any economic variable either from within or outside onto the national economy and for our purpose,on export performance.Thus,from this point of view,what can we delineate as the basic constraints that hinder export diversification?

5.2.1.General Structural Constraints.

From the national point of view,the most important factor militating against expansion of exports is the structural rigidity of production systems.Traditional theory of trade assumes that nations are readily able to adjust their economic structures to the changing dictates of world prices and markets.Thus,"Besides factors beyond a single country's own control, ... it is a country's ability to adjust rapidly and continuously and to shift its resources to the most advantageous uses that determines how it fares in,and what gains it reaps from, international trade." (Myrdal,1956,p.255).In this respect,the Zambian economy is far from being flexible.It is rigid and rigidity is a basic weakness in international trade.In short,the internal process of adjustment and resource allocation necessary to capitalise on changing world economic conditions are much more difficult in Zambia since its structural orientation is towards the production of one primary commodity.

Perhaps the other and,major,bottleneck to diversification is the high degree of dependence on one primary commodity -copper- export earnings.It is this sector that sets the pace for economic growth.Therefore,in this sense,the process of diversification centres more around this export base since both the home market and the export sector depend for their expansion on imported capital goods and raw materials.Hence the size and rate of expansion of the copper sector largely determine the volume of imports made possible and thereby,the limits of economic expansion.To expand manufacture,other mineral or agricultural output,it requires foreign exchange which is in short supply and can only be earned substantially by copper exports.Non-traditional (no-mineral) export sector has to compete with the traditional mineral sector with its strong political influence.

But the earnings from copper have been declining."Since copper is predominantly an input into investment goods,Zambia's economic development has in turn been largely determined by the expansion or contraction of the copper consuming countries." (Simson,1985, p.31).This dilemma,therefore, complicates or makes export diversification far fetched.It is a difficult problem since it requires copper export earnings for investments into the production of alternative exports.The problem is made worse with the drying up of external aid resources as debtors realise the risk they subject their resources to by lending to Zambia.The World Bank acknowledges that the government is hamstrung by lack of financial resources and the debt situation (to which we come later),since large amounts of investment are needed. Diversification has been hampered by lack of financial resources. To generate these resources,external finance,where available could,however,only be secured for the mines,making the country even more dependent on its mineral resources.

From the above,therefore,the problem is that,the development of alternative exports will have to take place in a period when capital and foreign exchange will be much scarcer than in the early 1970s.Zambia had the time and financial resources in that period and should have handled the symptoms of the Dutch disease.But the government as prime mover of economic activity,failed to take appropriate measures to encourage diversification of the economy effectively.This failure set the stage for a difficult export diversification exercise.

It must be noted that the most important determinant of growth and hence diversification in Zambia,is the price of copper.But with its collapse,the prospects are largely dim and Zambia faces a turbulent future.The collapse of copper prices have led to a crisis in which critical inputs in both industry and agriculture so required for a successful achievement of the objective are short.

In addition to export dependence,Zambia relies even more on the importation of raw materials,technology and/or capital goods to fuel industrial and/or agricultural expansion.For instance between 1970 to 1981,machinery and transport equipment imports grew at annual average growth rate of 8 per cent while crude (raw) materials and oils and fats grew at 9 per cent. (Country Profile,1985,p.12).Therefore,lack of foreign exchange results not only in demand contraction,but also leads to excess capacity as a result of shortages of critical imported inputs.To this Todaro observes that,"imported demands have exceeded the capacity to generate sufficient revenue from the sale of exports.This has led to chronic deficits on the balance of payments position. ... a chronic excess of foreign expenditures over receipts ... can retard development efforts.It can also greatly limit the nation's ability to determine and pursue its most desirable development strategies," (Todaro,1981,p.332),diversification,for instance. This problem can be traced to the strategy of import substitution that was adopted after independence.Far from improving the BOP situation indiscriminate import substitution has worsened it.Apart also from the BOP effects mentioned above,it effectively reduces financial resources needed to establish a base for the development of the industrial manufacture and/or agricultural expansion as a necessity for realising surpluses for export.This problem can also be explained in Dutch Disease terms where initial surplus earnings were not invested in productive activities but were ploughed in final consumption producing industries and social services.

Another effect and constraint of adopting ISI is the fact that,this strategy by implication meant protection.Hence the local currency was artificially overvalued in order to encourage domestic manufacture of consumption goods through the importation of cheap capital and intermediate inputs.It should be categorically stated that this was in fact the beginning of the problem since the result was to discourage exports in both industry and agriculture and hence spelt the failure of export diversification.

This insulated state of the domestic market makes investigation of the extent of effective rates of protection (ERP) necessary.In 1983,depending on available data,the World Bank calculated the ERPs for 1975 and simulated the ERPs for 1983.These are presented in the following table.

Table 9. Effective Rates of Protection, 1975 (percentage).

	Average		Range	
	Unweighted	Weighted	Minimum	Maximum
Consumer goods				
a) food products	67.35	127.52	-21.65	240.17
b) other,non food	342.45	368.45	-1.06	1251.1
b) durables	472.87	225	116.79	1018.48
Light intermediates	182.49	163.14	-1.18	505.52
Heavy intermediates	29.77	28.29	-7.84	85.29
Capital goods	59.71	35.21	-11.78	407.03
All goods	160.9	161.93	-21.65	1251.1

Source;Andersson,1988,p.34.

Although this data refers to the 1970's,it cannot be assumed that the situation has since changed as their has been no significant tariff reforms in Zambia.Also,"the simulation of ERPs in 1983 showed very little change from overall structure of protection in 1975." (Andersson,1988,p.35).It is,however,proposed that under the Preferential Trade Area (PTA) arrangements,there will be tariff reductions on 75 intermediate goods.According to the data in table 5.1, consumer goods received the highest protection while capital goods received the lowest.Lower ERPs for intermediates and capital goods was to allow cheaper importation of the same to foster production of consumer goods for the domestic market.Although a few commodities faced negative protection,some products had a wall of 1251 per cent ERP to operate behind.Little wonder that consumer goods industries grew faster than other sub-sectors while the growth of intermediates and capital goods did not take place to any substantial degree.(Karmiloff,1989,p.21).Therefore,the need for imports especially inputs grew larger while for the established industry,the combined price-raising effect of tariff-cum-licensing re-enforced the international un competitiveness of productive activities.In fact,the high rates of protection meant that a large part of tradables production was actually non-traded,thus hindering expansion.

Related to the above is the fact that,ISI hinders 'forward' and 'backward' economic linkages by discouraging trade among local industries.It increases the cost of inputs to potentially 'forward' linked industries and thus encourages imports which as seen above is a disaster.As one might expect,industries that are based on domestic raw materials have a higher comparative advantage than those producing consumer durables and heavy intermediates-both being import dependent.Furthermore,the policy of nationalisation created monopolistic parastatal companies whose response was less dependent on price signals.

Overvaluation of the local currency has been with Zambia for a long time.No wonder then that in advising that Zambia attains full diversification one of the major policy instruments that is frequently advocated especially by the World Bank and IMF,is devaluation where they prefer large and immediate depreciations.Devaluation can be a good instrument but it is not an end in itself.It is assumed that devaluation stimulates exports as they become more profitable locally,and competitive abroad.But from the theoretical point of view,what determines the degree of competitiveness is not the nominal exchange rate.Exports are stimulated if the real exchange rate is increased.It follows that for devaluation to stimulate exports,it must either increase real income or cut real expenditure.The issue therefore is the inflationary pressure that devaluation engenders in a structurally rigid economy like Zambia.Inflation is a clear obstacle as it increases the cost of production as the economy cannot respond to the signals sent by the devaluation decision.It also makes exportables uncompetitive as Karmiloff points out that,"Zambian exportables were uncompetitive prima facie in foreign markets." (Karmiloff,1989,p.20).In effect,the devaluation decision can simply generate galloping inflation domestically, (Todaro,1983,p.385),and moreover,"The fear that most or all of a devaluation will be neutralised by induced inflation is in fact the main current reason of questioning the efficacy of devaluation."(Williamson,1983,p.156).Furthermore,the whole process depends on the elasticities of the home demand and supply and of foreign demand for the country's exports.The more elastic the supply and these demands are, the greater is the effect of a given exchange rate movement,i.e.exports and/or export receipts will necessarily increase.But the more inelastic supply and demand are,the value and volume of exports will fall when the exchange rate increases.(Clement,pfister and Rothwell,1967, p.235).

Due to the desire to raise more hard currency and avoid cutting on vital imports,Zambia would contemplate among other options,increasing its mineral output.But Zambia is one of the many third world countries that depend on the export of these minerals.In this way,supply often increases or remains constant on the world market during periods of falling demand resulting in an oversupplied 'buyer's market' and low prices.Low prices would be reflected in low earnings.(note that this point is true for other primary exports).Low earnings would hinder meaningful investment and hence diversification.

Closely related to the financial crisis is the Zambian government role as the prime mover of economic activity and the debt situation.Having lacked the enterprising capitalist class that was capable of capital accumulation,the state assumed this role by its ability to accumulate capital.But this ability has been severely undermined by the collapse of copper revenues to such an extent that government (and through the multiplier effect) investments have drastically fallen (see table 7) while existing infrastructure has deteriorated.The dearth in government investment has huge restrictive impacts on the growth of the economy as a whole,since failure to provide supporting investments,inhibits both income growth,structural change,and hence export diversification.

In terms of copper contribution to government revenue table 5.2 below indicates the trend.

Table 10. Contribution of Copper to Government Revenue, 1969-1983, (in million Kwacha).

Year	1969	1970	1971	1972	1973	1974	1975	1976
Value	251	114	56	108	339	59	12	n.a
%	58	37	18	28	52	13	3	n.a

Year	1977	1978	1979	1980	1981	1982	1983	
Value	n.a	n.a	n.a	45	11	n.a	42	
%	n.a	n.a	n.a	5	1	n.a	4	

Source; Republic of Zambia, Country Profile, 1986 ,p.25.

As can be seen from the table, copper contribution to government revenue declined drastically from 235 million Kwacha in 1969 to only 12 million Kwacha in 1970, while the contribution between 1977 and 1979 was negligible although in 1979 there had been a slight improvement in copper prices and thus there was a contribution of 42 million Kwacha which formed only 5 per cent of total government revenue. The position has hardly improved after 1980 and a general decline of the copper industry contribution to total earnings is quite evident. (Country Profile, 1986, p.23).

On the other hand, the desire to maintain vital existing infrastructure, which is by nature import intensive, the government increasingly cut on capital expenditure while at the same time drastically expanding recurrent expenditure. Expenditure reducing policy is a short-term one which aims to improve the current account balance. It does not primarily aim at changing the structure of the economy in the long-run.

Faced with low revenues coupled with high import prices, the government resorted to deficit financing by borrowing both on the domestic and international markets. It is interesting to note that in 1974, the government absorbed less than 20 per cent of domestic credit. In 1980, this figure had risen to almost 75 percent.

(Meijer,1990,p.666).The effect has been;on the domestic scene,a crowding out of total investments and hence no expansion of exportable surplus output;on the international scene,Zambia has accumulated a massive external debt.Overall credit creation rose from 22 percent of GDP in 1974 to 63 percent in 1980.(ibid,p.667). In fact much of this borrowing was mainly used to maintain consumption.

These,combined with the deterioration in the terms of borrowing,e.g.high interest rates,have resulted in a position where much of the export earnings are already accounted for by debt servicing;(in other words,it flows back to the centre). Lawrence (1986,p.66) has estimated that debt service ratio for Zambia which was 18.0% in 1979 rose to 22.2% in 1980 and in 1981 it was 24.0%.Loxely (1990,p.19),has even gone further.He has pointed out that Zambia's debt servicing burden has been unmanageable for some years now with current commitments being almost as large as total export earnings and if arrears are included,debt service is the equivalent of 150% of exports! This unmanageability of debt has "increased the perceived risk factor of investment and trade with Zambia astronomically." (White side,1989,p.180).Under such severe financial constraints, export diversification is definitely close to an impossibility.

Zambia is a land locked country,with massive distances to the sea while the transport system that was developed was meant to serve the settler and foreign capital.In fact the transport infrastructure reflects Zambia's position in the world economy as an exporter of raw and processed mineral materials. Transport links to neighbouring countries remain poor and highly dependent on South Africa because of its efficiency and relative low cost.The former fact raises costs and discourages exports while in the latter case,destabilisation by the apartheid regime has telling blows to the flow of exports.Tactics like, "withholding imports,slowing exports,withdrawing loaned engine rolling stock, technical staff and so on," (Lawrence,1988, p.70), are rampant.In effect this is costly to the nation and reduces potential earnings to carry out economic objectives like diversification.Nationally,transport and communication infrastructure are ill developed to facilitate a rapid expansion of exports.Internal transport cost per unit is very high so as to constitute a major constraint on potential exporters especially on agricultural supply response and more so in the areas located from the line of rail.According to IMF statistics, Zambia has one of the highest cif/fob factors in the world.To be competitive in the world markets,Zambia has to overcome this cost disadvantage.(ibid,p.675).Thus transport problems are a major disincentive as they add considerably to the cost of operating.

Yet another constraint is the overdependence on imported energy resources while Zambia has an abundance of potential hydro-energy that has not been harnessed to its full capacity.The net result is that the nation is extremely vulnerable to external shocks as the case was in 1974,1979,1984 and recently the Gulf crisis though its too early to ascertain the extent of the impact.However,in case of a shock,scarce resources are diverted from objectives like diversification itself to sustain the short-run needs of the shock.It is further argued by other writers that because of its high dependence on imports,energy included,Zambia is a very open economy.Chenery and Srivanasan (1989:1595) describe Zambia as a 'classical export economy' that is completely open to foreign factors and foreign trade,that made little or no effort to capture economic rents from its primary exports for use in the domestic economy.Hence,shocks are transmitted in the economy rapidly.With lack of sufficient resources to cushion them,it means that the impact on the economy could be disastrous.

We have dealt extensively with the general domestic constraints though we cant claim to be exhaustive.Let us now turn to Zambia's position in the world economy.

5.2.2.General External Constraints.

In the world economy, international trade theory presupposes an international economy where by its assumptions,free trade, fixed and freely available technology,consumer sovereignty and perfect competition prevail.But in reality these assumptions are violated and curiously the net result is against the LDCs.Thus to analyze the external aspect,we will at times refer to LDCs in general after all Zambia is a party to this part of the world.

Zambia is dependent for the bulk of its export trade on a narrow market,especially very few developed country markets.Historically,the United Kingdom has been the most prominent trading partner while the EEC countries,Japan and the USA are the other main destinations of Zambia's Exports.The first and most prominent problem of these markets is that they are highly restrictive and unpredictable.In fact just learning how to penetrate these foreign markets by finding buyers and outlets is enough a discouragement for potential exporters.In stimulating non-traditional exports,price and other incentives are necessary but not sufficient since finding new markets (experience in export marketing) takes time and requires a consistency in government policy which has been lacking.

As far as restriction is concerned,developed countries generally erect various barriers to LDC export expansion both in the area of primary products and more-so in manufactures.In agriculture,for instance,while instituting duty free accessibility to raw materials,they at the same time impose stringent non-tariff barriers like excessive sanitary requirements that make export expansion in the affected commodities impossible.To demonstrate this point,to break into the European Beef market,Zambia would have to require massive investments in veterinary services.But as seen above this is close to impossible due to financial constraints,and since it would be so costly that it would not be viable.

Thus LDC and Zambian trade and export expansion in particular depend largely on the domestic and international economic policies of developed countries.Therefore,one can expect very little improvement in the competitive position of the comparatively advantaged industries as long as,"Access to major word markets is restricted by rich country commercial policies." (Todaro,1981,p.393).In addition,many developed countries provide generous financial incentives to their own producers.The overall effect of these incentives is to make the developed country export industries more competitive in the world market and hence makes it difficult for say,Zambian industries to counteract the impact.

These markets are also unpredictable where demand is concerned,after all,how responsive exports are depend on the elasticity of this foreign demand.To expand exports an elastic demand is required whereas inelastic demand reduces the incentive to export as it becomes unprofitable as less and less is demanded.Additionally,concentration of exports in a small number of foreign markets has particular risks to the exporting country.An individual market might be highly volatile which would be counter productive.

It is imperative to expand a bit on developed country domestic policies as they are of direct relationship between export expansion by Zambia and their (DC) domestic objectives.One such objective is the DCs growth and price stability in their economies.To control inflation,BOP deficits and rising unemployment,for instance,they employ deflationary general domestic fiscal and monetary policies like lower government expenditure,higher taxes and interest rates.The impact of these measures is to hit hard countries like Zambia as profound negative effects are transmitted.Moreover,these governments often conspire to promote joint ventures through coordinated trade and other economic ventures.They can resist countervailing economic/political and other pressures from weaker countries and can act collusively and often in conjunction with their powerful MNCs manipulate the conditions and terms of international trade to their own interest.In this context and recognising the plight of Africa in general,Sutcliffe (1986,p.26),has made rather an apt comment that,"The tragedy of Africa today is that much of the continent is on the relatively disadvantaged side of virtually everyone of the polarisation which is taking place." One cannot help mentioning the recent Gulf crisis where Africa and in particular oil dependent Zambia will feel a huge impact on its economy but the West is busy mobilising financial help to the so-called hardest hit countries while oblivious of the deleterious effects the crisis will have on small countries like

Zambia.Therefore,as long as our economies are closely linked to DCs economies, economic performance will be highly doubted and the capability to control our own destiny will be lost.

It is also interesting to note that technological advancement of the developed countries causes a lot of misery to LDCs in general as its impact on export earnings is catastrophic. This is due to the development of synthetic substitutes for many primary products and have increasingly been manufactured over the years.These substitutes act both as a brake against higher commodity prices and induce direct competition in world export markets.Far from improving the competitive position of LDC commodities,they in fact discourage it.

The other point is that since technology is not freely available,i.e.the cost is beyond most LDCs' available resources,the advantage enjoyed by DCs in this respect will continue to be their domain and more over DCs advanced technology ensures and will continue to ensure that consumer tastes are geared towards new and advanced products (i.e.no consumer sovereignty),while LDCs and Zambia in particular will want to diversify into low cost labour intensive products which will be regarded as old fashioned.The net impact of these two points is the fact that demand for low cost labour intensive products is drastically reduced and consequently the financial resources of the affected country will be reduced.Therefore,the incentive to export simply wanes away.Todaro notes that," Combining these technological tastes and substitution forces with those of low income and price elasticities of demand for primary products and the rise of protection in the markets of developed nations,one can see why the uncritical adherence to the theoretical dictates of 'comparative advantage' can be a risky and often unrewarding venture for many LDCs." (Todaro,1981,p.351).

Further,theory assumes perfect competition.Reality displays monopolistic and oligopolistic market conditions in which large existing firms are able to under price smaller or new entrants and thus exert monopolistic control over world markets.As such they monopolistically control world supply (and demand) conditions.This means that these large individual corporations are able to manipulate prices and supplies and hence conditions of entry into the export market at the expense of new entrants.

Nowadays its fashionable to talk about strategic trade policies in order to promote exports.Strategic policies seek to alter the behaviour of others in ways that work to the strategist's advantage.But strategic policies are by themselves not desirable by those they are aimed at.It should be realised that each government has an incentive in promoting exports whatever the others do.Thus,aggressive unilateral export promotion may lead to retaliation if one country feels that it is losing.(Helpman and Krugman,1989,p.110).Therefore,while Zambia would like to promote and diversify its exports,the menace of retaliation from those who may be aggrieved looms high,especially from competing countries like those trying to expand similar exports.Retaliation leads to having lower profits which can be deployed in productive activities.

A final comment on the general constraints to export diversification will do.The World Bank blames the non-achievement of desired objectives like export diversification solely on 'inappropriate' internal policies.But I would rather be sceptical of this wholesome condemnation because,as Nixson rightly points out,"in reality,the problem is more complex.External performance is influenced by 'internal' policy measures,and the selection and implementation of internal policies is constrained by 'external' factors.Equally,the specificity of each country,s historical experience and the characteristics of its particular incorporation into the international economy need also to be given their due weight." (Nixson,in Lawrence,1986,p.39).

5.3.Sector Specific Constraints.

In this section we will analyze briefly the problems of diversification as they apply uniquely to each sector in Zambia.However,some overlaps both in sector and general constraints may be noticed because in this kind of analysis it is very difficult to be watertight.

5.3.1.Industry.

The World Bank has observed that in Zambia,"serious obstacles to export promotion in manufactures are those posed by over-valued exchange rates in combination with protection and incentive structure biased against exports." (World Bank,1989,p.110).Consequently,no other measure to help exports is as powerful as adjusting the exchange rate so that the adjustment remains real-so that devaluation is not offset by inflation.(ibid,p.110).But reality shows that Zambia has carried out a number of immediate and large depreciations since 1976 but no tangible results have been observed in export expansion.It should be observed,however,that devaluations were not intended to encourage expansion in the tradables sector but to discourage imports and improve the profitability of the mining sector.

Yes,the problem is more complex.Not only is industry a small proportion of GDP,but it is also extremely structurally weak although it is important now than it was two decades ago.Heavy industry and/or capital goods industry is virtually non-existent with very low,if any,economic linkages in the present structure. This lack of meaningful economic linkages is witness of lack of a strong intermediate goods industry.This problem has exacerbated the import intensity of the Zambian industry.Further a major contraction in industry has occurred and is still occurring. Industrial contraction makes achievement of export diversification far fetched.For instance,gross fixed capital formation decreased from a share in GDP of about 15 percent in 1983 to 10 percent in 1987.In 1984 and 1985,consumption of fixed capital even exceeded gross fixed capital formation.Thus,the possibility for diversification in the sense of increased production was non-existent.(Meijer,1990,p.670).

Industry has failed to provide the expected impulse to overall growth of the economy.It has failed to mix successfully with the agricultural sector and to satisfy this sector's need for incentive goods to generate increased output.

Admittedly,industry and especially heavy industry plays an important role.But industrial growth in Zambia depends on the prosperity of the mining sector.The collapse of this sector's ability to earn enough foreign exchange has spelt doom as the industrial sector is a net spender and not earner of this valuable resource.Therefore,the general shortage of foreign exchange coupled with the high industrial import content have put unfavourable production conditions and hence supply restrictions on the economy.Loxely observes that,actually,Zambia's manufacturing industry is unusually highly dependent on foreign exchange,even by African standards.(Loxely,1990,p.12).

Comparative advantage in producing a raw material does not necessarily imply comparative advantage in processing the material.Industrial processing and/or manufacture of many commodities,however,require large capital sums (as the PCT postulates) and large amounts of skilled labour both of which are generally scarce.The processed/manufactured product,in such circumstances,become often more expensive per unit.It is this cost disadvantage that discourages potential manufactures export producers.Where manufactured products for export are low cost labour intensive ones,entry into DC's markets is seriously impaired for fear of out competing their higher-cost capital intensive products. "Primary commodities have relatively free access to rich country markets.But severe problems arise,however,when developing countries attempt to diversify their exports out of Primary commodities." (Thoburn,1977,p.24).

5.3.2.Agriculture.

The point of departure here follows from the performance of industry in Zambia.It is important to recognise that,among other things,the growth of output in agriculture depends on the degree of mechanisation.If industry feeds agriculture with implements/ machinery,then poor performance in industry will affect agriculture and if agriculture feeds industry with inputs,the reverse will be the case.The re-enforcing nature of these problems results in the overall stagnation of the whole economy.

Since industry has performed badly,most of the machinery/ implements used in agriculture has to be imported.It must be added, however,that such mechanisation must be realistic and appropriate.But the type of mechanisation and agricultural technology available in this respect is far more complicated and expensive such that it is beyond most of the majority of farmers in Zambia who are the subsistence and the so-called emergent farmers who in fact provide the bulk of marketed output. With the deepening crisis,the prospects of acquiring such technology and its respective spare parts are diminished.Going hand in hand with this obstacle is the emergency of another obstacle- rising input costs and rates of credit linked to the establishment of a competitive money market.These factors have hit hard these groups of farmers who have been accustomed to purchasing inputs with rationed credit allocations made available at negative real interest rates.Hence,they have contributed to the withdrawal of these farmers from the official economy.

These people are highly dependent on extension work, agricultural production and marketing infrastructure.Thus a reduction in government revenue has important repercussions on their incentives to produce.And arising from the general economic malaise,it is likely to prove very difficult to achieve a substantial build-up of new investments in the agricultural production capacity.

The weather is another worrisome aspect as its debut cannot be forecast.Even the capability to monitor and/or forecast weather variations to allow for remedial action is not there. Drought wreaks havoc when it strikes and it has other devastating effects by prompting the importation of expensive substitutes in case of a short fall.One would think that the weather havoc has taught us enough lessons to put in place adequate irrigation systems.But alas,large scale irrigation measures are far from being mooted except for few commercial farms.

The still maintained pan-territorial or equity pricing as opposed to efficiency pricing means that,"farmers in areas favoured by easy market access have been paid well below 'border related prices' thus depressing producer incentives and incomes in those areas where the industry has a genuine comparative advantage." (Kydd,in Harvey,ed,1988,p.149).Far from promoting exportable surplus production,pan-territorial pricing effectively retards it.

It is argued that for air freighted horticultural and high value tree nuts,export opportunities exist.But the problems are that these activities are skill and capital intensive with a lot of investments required.As we have seen elsewhere,these resources are limited.There is also need for efficient and frequent freight schedules between Lusaka and Europe to allow these products to reach the markets in top quality form.But with poor transport and communication infrastructure,this service is wanting.

Zambia is surrounded by neighbours who are largely agricultural countries capable of producing a similar range of crops.Therefore,the scope for agricultural exports to these countries is very limited,apart from years of harvest failure. These and other LDC countries are also striving to expand their agricultural exports.In the long run what would be expected is over-supply of these commodities on the regional and world markets with ultimate consequences of lower prices leading to less incentives to export.

Kydd concludes that,in Zambia,"a central part of the newly adopted development strategy was for agriculture to play the main role in future growth in a situation where copper exports were expected to decline rapidly.This would represent a structural shift unique in the history of Africa." (ibid,p.230).By implication,the problems to be tackled in Zambia's economic development in general and export diversification in particular,are indeed momentous.

This chapter has attempted to present some pertinent issues in trying to understand why export diversification in the context of Zambia has tended to be elusive.From the foregoing,the,what lessons can we learn ? Therefore,the following chapter attempts to draw conclusions from the above,and in that context present some policy implications.

CHAPTER VI.CONCLUSION.

6.1.Summary.

Export earnings in the development process of many LDCs are very crucial.But to earn these resources,most of these countries depend on the export few primary commodities,i.e.export concentration.But this issue raises the question of export earning fluctuations which are a particular risk in the development of these nations.Furthermore,dependence on the export of primary products poses another problem in that these commodities display low price elasticities of demand (and supply).Thus it increasingly becomes unprofitable to export in conditions of falling demand while in the case of increasing demand,supply cannot be adjusted quickly enough.The result is low earnings.

Zambia is a single leading commodity export country and it fits precisely in this description.Uniquely,its export is,as well as exhibiting demand and supply characteristics of most primary products,also a wasting asset which has been forecast to be depleted in 15 years time now.Therefore,export diversification into non-traditional exports is clearly desirable.

Export diversification has,curiously,been a main objective since independence,but as of now nothing much has been achieved in this direction.Perhaps,one explanation could be that,the historical experience of the country put pressure on the available resources to restructure the colonial structure that was left behind.In order to do this,some sort of strategy had to be adopted.This is where import substitution and state control of economic activity were ushered in.Unfortunately,this strategy has been a failure.More-over,emphasis was placed more on the provision of non-tradeable goods and services,at the expense of capital and tradeable goods sectors.

It should also be noted that in the eight years or so after independence,Zambia had abundant resources but the 1974 oil shock coupled with world wide inflation and the collapse of copper prices initiated a decline in earning and the eventual downward slide of the national economy.Therefore export diversification has to take place in an environment of reduced and scarce foreign exchange earnings.Its important to note that copper export earnings set the pace for economic growth.With this in mind therefore export diversification in Zambia faces a lot of obstacles.Meijer concludes that,"the vulnerability of the economy has hardly changed during the twenty five years of Zambia's independence." (Meijer,1990,p.684).

6.2.Findings.

The mining sector,and especially copper,is the leading sector.Its importance in terms of GDP contribution has declined over the years,but it still retains prominence in export earnings and government revenue contribution.Thus,export diversification centres around this base. Therefore,the price of copper is the most significant external factor since it determines about 90% of Zambia's export revenue.

Export diversification is a noble objective,but faced with a deep and intensifying crisis which has demonstrated the limits of primary commodity export dependence,Zambia will have to put more than average effort for its achievement since major determinants of diversification,like massive investments in both agriculture and industry,infrastructure and skilful management have drastically deteriorated.

Zambia had chances of export diversification in the 1970's when she had enough resources,but because of the structure of the economy left behind by the colonialists,she had to pre-occupy herself with 'making things right.' However,no substantial progress has been achieved in redressing the structural imbalances that are a historical pattern of Zambia's economic development.Hence,there are structural rigidities that also act as a major disincentive and/or constraint on export diversification.

The structure of the economy developed after the colonialists was import oriented especially in view of the fact that most of what was called 'manufacturing' industry was in fact industry designed to 'process' goods for the domestic market with the mother company either in developed countries,Southern

Rhodesia or South Africa.(Ncube,1988,p.32).By this token,Zambia has a weak capital and/or intermediate goods sector.

6.3.Policy Implications.

From the above analysis,it should be clear that under the present circumstances,Zambia's export diversification faces limited prospects.However,this is where the importance of policy analysis can be appreciated.In this vein therefore,the challenges and obstacles have to be realistically assessed in order to come up with alternative policy options that can also realistically challenge these obstacles.We have not come up with concrete policy options,though,but have attempted to present actions that have alternative policy implications in attempting to achieve export diversification.

The object of any policy is to align (economic) activity for the purpose of arriving at a desired point.For our purpose therefore,the object of policy is to achieve meaningful export diversification.Mindful of this fact,then,the following can be said;

- It is important,in the first instance,to note that we have lacked proper policy analysis especially in the way external factors are 'internalised',i.e.the way external factors are transmitted,or are mediated by,internal structures.In view of this proper policy analysis and not 'ad hoc' or 'crisis' management should be undertaken in confronting the challenges before us.This implies a rethink of both national and international strategies that are designed to foster export expansion given the myriad constraints that close down certain options.Macro-economic and sectoral policies should be continually adjusted to the existing exigencies .

- Related to the above is the fact that,in the realm of policy analysis,lack of co-ordination in designing,analysis and/or implementation of policy issues between ministries or departments (and within),is very prominent in Zambia.This is a major constraint as it is costly due to duplicity and waste.Therefore, co ordination is of prime importance in arriving at set objectives.

- The object of export diversification policy must be gradually to bring incentive structures which may efficiently encourage domestic producers to produce for export.This implies provision of substantial and generous incentives and services that elicit quick responses from producers.In Zambia,serious obstacles in granting export incentives exist.For instance,this jurisdiction is vested with the minister of trade and commerce,and complex administrative mechanisms exist.Therefore, the above proposition calls for streamlining the procedure in obtaining tax rebates and reforming the allocation of import licences procedure to make it both easier and cheaper for exporters to obtain the imported materials they need.This further means the simplification of export documentation and bureaucratic delays that act as a brake on the supposed incentive impact to producers and the improvement in the terms and availability of export finance,export insurance and an efficient system in disseminating market information.Under this incentive structure,better pricing policies must be devised.Sticking to policies like pan-territorial pricing cannot be expected to stir the nation towards meaningful export diversification.This calls for the recognition of regional comparative advantage in stimulating production especially in agriculture.This aside, energy,transport,public utilities and other services provided by the government should be self financing.It is interesting to note that some steps have been taken in this direction,but are not enough.Fees levied for public services are not economic and hence require subsidisation which is a major drain of resources, and contributes to budget deficits.

- Protection can have an important role to play.But,"it is a tool of economic policy that needs to be employed selectively and wisely,not a panacea to be employed indiscriminately and without reference to both short and long term ramifications,(Todaro, 1981,p.381),as was the case under ISI.In this case only strategic industries that offer prospects of growth are protected and promoted.For instance,domestic resource based industries which are less import intensive than the existing ones,such as food products,wood and wood products,textile and fabricated metals,agricultural wastes industries could under proper policy mixes be potentially competitive in international markets.For efficient agro-industrial production for export,existing industries have to be streamlined.For this purpose,a policy which provides for greater scope of private participation is considered essential.Such a policy would also permit mobilisation of more individual,local and external skills and resources,which would otherwise not be available under the present restrictions.

- In view of serious shortage of resource,economic rationality should prevail.Projects should be carefully selected to ensure that they meet the test of economic efficiency.This implies that,the little available resources should be systematically channelled into sectors with highest potential for expansion of exports.This is where the agricultural sector comes in as it has greatest potential for providing an expansion of exports.For instance,high value horticultural and tree nuts show a high potential of being exported.In this regard therefore,a policy of identifying priority sectors should be vigorously pursued.

- Should DC markets prove an obstacle,a policy of penetrating neighbouring countries,especially within the SADCC and PTA groupings should be explored.These offer prospects of an enlarged market and especially after the independence of Namibia and a post-apartheid South Africa.In view of the comparative advantage in low cost labour products,other LDCs also offer suitable markets.The latter point suggests that the informal sector should have the attention it deserves.This sector offers prospects for the development of low-cost labour intensive products and provision of the much needed intermediate inputs and/or spare parts for the existing import intensive structure,given proper incentives and policies.

- Zambia is self-sufficient in coal and is a net exporter of hydro-electric power.Therefore,ways and means of moving away from dependence on expensive petroleum based power should be explored.This would involve the development and utilisation of locally based energy resources.Substitution of electricity or coal for heavy fuel in the mining industry,for example,would save about one quarter of the import bill.The resulting resources would be ploughed back into other productive activities.

The challenge facing the country is to develop alternative sources of finance.With declining earnings,the immediate objective is to restore financial stability,which without it,the resources necessary to carry out such noble projects would be difficult to get.Alternatively,since successful diversification requires unusually large inflows of capital,foreign aid,albeit utilised productively and if available,will be needed to relax the financial constraint.

- Serious problems remain with Zambia's transport system. Improvements in the carrying capability of the transport system,and any reduction in transport costs will have beneficial effects on exporters.This implies that the existing transport (and other) infrastructure should not be allowed to reach a state of total collapse.Rehabilitation of these infrastructure will enable some competitive industries to pick up and produce for export.

-If we aim for a viable industrialisation policy,it must be based on creating a strong capital/intermediate goods sector. Therefore,investment priorities in relation to the development of these sectors should be explored.

The end.

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