The Benefits of Trade and Key Trade Issues in Zambia

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Under Exploited Potential

- Zambia is in a unique position
  - Abundance of fertile land
  - Water
  - Generally, favorable climate for agricultural production
  - Growing population, rapid urbanization and rising incomes creating more opportunities for smallholder farmers
  - Can easily become a ‘Breadbasket’ for the region

Are Zambia’s trade policies and actions amenable to these opportunities?
Value of Agriculture Imports and Exports

Exports growing by 27%/year in past decade

FAOSTAT Data
Huge Market for Zambia’s Agricultural Products
Arguments Against Trade

- Infant industry argument.
- The Senile industry argument.
  - Protecting a declining and inefficient industry to attract large investment to make them efficient again.
- To diversify the economy
- Raise revenue for the government.
- Import taxes can be used to raise money for the government (small amounts of money)
- Help the Balance of Payments
- Reducing imports can help the current account. Usually leads to retaliation
- Cultural Identity
- Protection against dumping
- Environmental
Imagine an island with only two trees but lots of boats. The islanders produce two goods, coconuts and fish.

A nearby island has many trees, but it has very few boats.

Initially, there is no contact between the islands. However, a new navigational device will soon allow shipments between the islands.

What do you think would happen?
Comparative Advantage

Refers to a country’s ability to produce a good at a lower opportunity cost than another country

Due to differences in
- technology, climate and factor endowments
Why Should Zambia Facilitate Trade?

- Only two trees → expensive domestic coconuts before trade
- Imported foreign coconuts are cheap
- Domestic price of coconuts ↓ with trade

- Lots of boats → cheap domestic fish before trade
- New export markets for fish increases demand
- Domestic price of fish ↑ with trade
Why Should Zambia Facilitate Trade?

- Who cares about the price of coconuts?
  - People who own trees
  - Consumers

- Who cares about the price of fish?
  - People who own boats
  - Consumers

Who could object to trade?
Benefits of Trade

Shortfall + Closed Borders

Price
$ / ton

Quantity

300
200
100

D
S_1
S_0
Benefits of Trade

Shortfall + Open Borders

Price $ / ton

Quantity

D  S₁  S₀

Pm

300  200  100

Indaba Agricultural Policy Research Institute
……Benefits of Trade

Bumper Harvest + Closed Border

![Graph showing the impact of bumper harvest and closed border on price and quantity.]
……Benefits of Trade

Bumper Harvest + Open Border

**Diagram:**

- **Axes:**
  - **X-axis:** Quantity
  - **Y-axis:** Price ($ / ton)

**Graph Elements:**

- **Demand Curve (D)**: Downward sloping, indicating a negative relationship between price and quantity demanded.
- **Supply Curves:**
  - **S0**
  - **S2**

**Key Points:**

- **Pe**: Equilibrium Price
- **300, 200, 100**: Price levels on the Y-axis
- **S0 to S2**: Shift in supply due to factors like bumper harvest and open border policy.
**Benefits of Trade**

Trade Reduces Price Volatility

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Diagram showing the reduction in price volatility due to trade. The diagram illustrates the shift in supply and demand, with price volatility decreasing from $P_m$ to $P_e$. The graph shows the price in dollars per ton on the y-axis and quantity on the x-axis.
Openness to international trade is an effective way to reduce price volatility.

Export bans harm producers by limiting their ability to gain maximum revenue from their sales.
- Creates disincentive to produce in future
- Lose markets to other countries

Limiting imports harms consumers by requiring them to purchase high-priced domestic goods.
- Unnecessary cut into household incomes

Why Should Zambia Facilitate Trade?
Why Should Zambia Facilitate Trade?

- Provides Zambia with an opportunity to diversify exports away from copper
- Offers expanded markets for agricultural surpluses beyond the domestic market
- Creates incentives for farmers to produce more through higher prices for commodities across borders
- Attract more investments in the agricultural sector including FDI
Zambia will be better off by facilitating trade but....

- Too many road blocks (both physical and non physical barriers)
  - Tariff and non-tariff barriers
  - Poor infrastructure (road and rail)
  - Too centralized permit processing
  - Inefficient border processing
  - Ad hoc trade restrictions (e.g. Food staples, maize, oilseeds, wheat)
    - Increase price volatility,
    - Raise transaction costs → lower farm prices and higher consumer prices
    - Diminish farm prices and producer incentives
Trade issues in Zambia

- **Wheat**
  - Tug of war between Millers and ZNFU
  - Need open discussion to deal with imports and exports

- **Maize**
  - Unreliable supplier (DRC, Zimbabwe huge markets)
    - Open maize border policy?
    - Ad hoc polices
Trade issues in Zambia

- Maize bran
  - Exports?
- Oilseeds
- Livestock products
Conclusion

- Divergent interest groups!!!
- Trade facilitation a must and requires us to talk to each other.

Zambia will win not individuals
Private Maize Market at Work

Source: Dr. Rhoda Mofya-Mukuka - Nangoma, July 8, 2015