The Benefits of Trade and Key Trade Issues in Zambia

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The Food Price Dilemma

- A big challenge for policy makers
  - How to ensure that prices for ag. commodities are sufficiently high to enable food producers to generate adequate profits to continue to produce, but..
  - Low enough to be affordable to consumers.

Are Zambia’s trade policies and actions amenable to this?
Huge Market for Zambia’s Agricultural Products
Value of Agriculture Imports and Exports

Exhibits growing by 27%/year in past decade

FAOSTAT Data
Arguments Against Trade

- **Food Security**
- **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**
Benefits of Trade

Shortfall + Closed Borders

Price
$ / ton

Quantity

D
S₁
S₀

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……Benefits of Trade

Shortfall + Open Borders

Price $ / ton

300
Pm
200
100

Quantity

D S₁ S₀
Bumper Harvest + Closed Border

......Benefits of Trade

Price $ / ton

300

200

100

Quantity

D S₀ S₂
……Benefits of Trade

Bumper Harvest + Open Border

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Trade Reduces Price Volatility
Why Should Zambia Facilitate Trade?

- Openness to international trade reduces 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?

- Diversification exports away from copper
- Offers expanded markets beyond the domestic markets
- More investments in the ag sector including FDI
- Increasing governments revenue and forex
- Improves reputation as a reliable source of maize for the region
- Informal trade flourishes even under export bans
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
El Nino Weather pattern 2015/16

- Northern part of the country received better rainfall;
- Weather pattern improved from late January onwards

Adapted from Vulnerability Committee Report, 2016
Trade restrictions even when Zambia had enough stocks

- 573,478 MT by April

- CFS results- Production 2.8 Million MT
Formal Maize exports for the 2015/16 Marketing Season

- High maize grain exports between May and November
- Began to drop from August onwards
- Infrastructure can only allow so much to be exported
Formal Mealie Maize exports 2015/16 season

- Low formal mealie meal exports
Export Destinations for maize grain 2015/16 season
High informal exports fueled by high price differences

Kitwe, Breakfast meal price K85 per 25kg

Kasumbelesa (Zambian side) Breakfast meal price K175 per 25kg

Kasumbelesa (DRC side) Breakfast meal price K250 per 25kg

Lubumbashi Breakfast meal price K400 per 25kg
Informal maize grain exports

Export volumes (MT)


DRC  Mozambique  Tanzania  TOTAL
Informal mealie meal exports

- DRC
- Mozambique
- Tanzania
- TOTAL

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Illegal exports of mealie meal have been a major challenge this year.

Sacks of mealie meal are strewn along the roadside in Chililabombwe, awaiting pick and transportation to Kasumbalesa and/or surrounding areas.
Illegal exports of mealie meal have been a major ...challenge this year

A lottery Centre in Chililabombwe turned into a mealie meal depot
Illegal exports of mealie meal have been a major ...challenge this year

A place popularly known as Bilanga or COMESA, notorious for mealie smuggling activities shows no smuggling of mealie meal as it is heavily patrolled by the Police
Conclusions and recommendations

- Maize exports – an opportunity for Zambia to diversify away from Copper;
- Government should not impose export bans in response to the anticipated high maize and mealie meal;
- Allow private sector to formally participate in exports;
- Government should continue manning the borders where illegal exports are rampant.
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
Thank You