

16th CUTS International 30th Anniversary Lecture on
Regional Trade: A Catalyst for Growth and Sustainability of
Small Businesses in the Southern African Region

Lusaka, Zambia, March 10, 2014

30th Anniversary Lectures

To mark its 30th Anniversary, CUTS International is organising a series of lectures around the world, including India, with eminent scholars and practitioners on topics of interest to go with CUTS' work agenda. The aim of the Lecture series is to shape CUTS future interventions, which would help in promoting inclusive growth from the perspective of their impact on consumer welfare in the light of contemporary policy discourse on trade, regulation and governance.

In this series, the 16th Lecture was delivered by Caleb Fundanga, former Governor, Bank of Zambia and currently President, Institute of Finance and Economics (Zambia). Other panellists included Felix Mutati, MP and former Minister of Commerce, Trade & Industry, Zambia; Kundhavi Kadiresan, World Bank Country Director for Malawi, Zambia and Zimbabwe; Yvonne Chileshe, Director of Foreign Trade, Ministry of Commerce, Trade & Industry; Edwin Zulu, Coordinator, Zambia-COMESA SME Toolkit Project and Dorothy Tembo, former EIF Executive Director and vice-chair of CUTS Lusaka Board.

Welcome Remarks

In his welcome remarks, **Rijit Sengupta**, Regional Director (CUTS International), Africa said it was a great pleasure and honour to invite all the guests on behalf of CUTS International Secretary General, Pradeep S Mehta and colleagues of CUTS International Lusaka to the 16th Anniversary Lecture of CUTS, to celebrate 30 years of its existence.

Sengupta further stated that throughout 2013, CUTS has organised such public lectures on important and relevant national, regional and international issues across various parts of the world to celebrate 30 years of its existence and draw important elements that would guide CUTS' work forward as the organisation proceeds to the next milestone in its existence, i.e. the 50th anniversary in 2034. He said CUTS has already developed a Vision Document – CUTS@50 and the organisation hopes to refine its envisaged pathway as it evolves over the next 20 years.

He added that for the 30th Anniversary, CUTS thought of making a variation from the way it celebrated CUTS Silver Jubilee. It was generally thought that it would be better for CUTS to

go around the world and celebrate this landmark year with friends, partners and well-wishers across the world. Frugality is embedded in CUTS philosophy of work, and that is why many of our well-wishers refer to our growth over the years as – ‘organic growth’. Sengupta said the idea of having CUTS 30th Anniversary celebrated across the regions where it work and also in regions that are important for its activities was envisioned by Mehta. At this time, Sengupta invited all to watch a documentary that would provide an idea of the intent with which CUTS was established and a glimpse of its activities over the years.

CUTS: A Faithful Partner at Global, National and Regional Level

The in-chair **Dorothy Tembo** congratulated CUTS International Lusaka for the work it had done over the years. She further said that CUTS remains a very faithful partner at global, national and regional level. Tembo went on to say that the potential that trade holds to contribute to the development agenda for all countries is a fact that is acknowledged by all of us. The issue is to do more with how to turn various visions that the countries have, be it at national or regional level, into a practical sense that actually results in making a difference on the ground. Key in all this drive is the need to change the livelihoods, particularly the livelihoods of those that are most vulnerable in our societies and this is where CUTS comes in as one of the key partners to work with in trying to achieve that.

Tembo also stated that one of the most viable strategies that has been alluded to by a number of people in achieving the goal of strengthening the role of small and medium enterprises (SMEs) has been that SMEs remain the largest contributors to employment but also present the potential to not only increase competition, enhance the generation of employment and entrepreneurship but also boost economic viability at the community level and create sustainable livelihoods. She attributed trade and livelihood as a component that remains a key area of operation for CUTS for the coming year, as also stated by Sengupta.

Fostering Competitiveness through Regional Integration in Trade

In his keynote speech, **Caleb Fundanga** thanked CUTS International for organising lectures on its 30th anniversary. He indicated that he has interacted with CUTS on a number of forums and hoped that this would continue.

Fundanga’s presentation was an amalgamation of ideas from the academic and practical point of views. He used the economic theory of comparative advantage (by David Ricardo) and the next best alternative theory, to stress the need for external trade in development and the use of regional markets as alternatives to lack of access to the global market, respectively.

Fundanga observed that regional integration in trade was an important factor in fostering competitiveness and ultimately efficiency. He, however, stated that Zambia’s external trade was being hampered by certain existing trade barriers in the region.

He also revealed that expanding intra-regional trade in South African Development Community (SADC) would be possible if South Africa can open up more to the products of other SADC member countries. He further observed that South Africa still has in place a number of non-tariff barriers that affects its possible trade with SADC members. A number of agricultural products from the region cannot enter the South African market for one reason or another. This, he feel reduced the scope of SMEs development given the dominance of SMEs in this sector.

Fundanga mentioned that a lot needs to be done at the individual enterprise level if Zambian products are to enter the regional market. It is important that Zambian products must be of high quality because they will have to compete against similar products from the rest of the region. Aggressive marketing and proper branding and packaging will be key, he asserted.

He also advised that Zambian SMEs must learn to be outgoing by learning to speak languages of potential customers in the region, such as Portuguese, French and Swahili in order to gain access to regional markets.

SMEs to Act as Conduits for FDI

In his lecture, **Felix Mutati** noted that SMEs should exploit the local markets before looking beyond borders because “a dollar was the same regardless of its source.” In this instance, he was of the view that SMEs had a tendency of exporting for the sake of prestige and not on the basis of viability. He added that there is enough demand for Zambian products in the region and one way of strengthening SMEs was to facilitate better cross-border trade. He added that goats could be traded across the border with DR Congo, groundnuts to Botswana, cabbages to Angola – and so on. He emphasised that regional integration should be linked with ‘opportunities for SMEs’.

He further emphasised that in least developed country like Zambia, SMEs should carefully select opportunities for trade and not be over ambitious to start with.

Trade as an Engine of Inclusive Growth

Speaking on trade as an engine to drive economic diversification, inclusive growth and job creation, **Kundhavi Kadiresan** said Zambia had a stable macroeconomic framework and good business environment. These provide a solid foundation for building competitiveness and expanding trade. She further pointed out that trade can play a powerful role in raising incomes and creating jobs in Zambia. Imports can provide access to efficient inputs; create competition that pushes firms to becoming more efficient. While export creates incentives for firms to invest in technology and upgrade skills.

She stated that the Diagnostic Trade Integrated Study (DTIS) prepared by the World Bank finds that Zambia’s exports of copper and other products have grown fast in the past

decade. Non-traditional exports (NTEs) have also grown and reached US\$3.2bn in 2012, up from US\$0.5bn in 2003. NTEs include cereals, sugar, gold, gemstone, tobacco and cement and this is a good sign.

She said the level of sophistication of non-commodity export has improved. Statistics show that during 2000-2013, total exports of manufactures with medium/high skill and technology intensity grew at an average annual rate of 46 percent in value, compared to 14 percent for labour-intensive/resource-based goods. Kadiresan also said sub-Saharan African neighbours have been a major and growing source of demand for Zambia's NTEs. Zambia's NTEs to the main Regional Economic Communities (RECs) of which Zambia is a member, namely the SADC and the COMESA, have grown faster than total exports over the last decade. The main regional importers of Zambia's NTEs are the Democratic Republic of Congo, South Africa, Zimbabwe and Malawi.

Kadiresan also said that there is sizeable unrecorded trade in beans, maize and rice between Zambia and its neighbouring countries. Such informal trade allows smallholders and small traders to exploit opportunities arising out of price differences across the border, and improve their welfare. She, however, says export diversification has grown moderately. Copper and related exports still account for 80 percent of total value of exports. There is need to reduce trade costs to diversify into higher value activities as this would influence the country's ability to position itself in global networks of trade and production.

She further added that trade costs are increased by numerous factors ranging from transport infrastructure and logistics bottlenecks, documentation and customs compliance requirements, and lengthy administrative procedures that impose delay at border crossings to behind the border measures such as non-tariff regulatory measures, market access restrictions, limited and costly trade finance and general impediments to doing business.

Kadiresan said that the DTIS provided guidance to implement logistics and trade facilitation reforms covering both formal and informal traders. A second key area for trade cost reductions are behind the border barriers as proposed by the DTIS. She also mentioned that regional integration can play a crucial role in supporting implementation of policy actions and in leveraging regional markets to drive competition in the domestic market and generate new export opportunities. Regional integration can also help in advancing the country's trade, regulatory and institutional reforms. She also stressed that DTIS highlighted services as an avenue that can become a source for export diversification for Zambia.

Facilitating Public Private Partnership

Yvonne Chileshe thanked CUTS for facilitating public private partnership. She said regional trade for Zambia would only be meaningful to our country if Zambia had value-added products to sell. She further stated that the government is trying to address the supply-side constraints using different plans and policies, such as the Sixth National

Development Plan (SNDP) and the Commercial, Trade and Industrial Policy (CTI) in which SME growth is an integral part of plans and policies.

She further stressed that the DTIS mentioned by the World Bank is a tool that prioritise products that should be focused on by SMEs and government was definitely embracing this. The government, through the Zambia Development Agency (ZDA), is promoting SMEs in various parts of the country.

At regional level, Chileshe said there was need to take advantage of large populations in neighbouring countries, such as Democratic Republic of Congo which has a population of about 75 million. She, however, stated that intra-regional trade is being hampered by lack of ownership, ambition and political will within the region.

In a similar development, she stated that the Tripartite Free Trade Agreement (FTA) is trying to harmonise COMESA, SADC and East African Community's (EAC) existence and will bring together a population of 650 million people. She further said that issues around SMEs were at the helm of attention when negotiating in forums like the Tripartite FTA. Zambia faces a number of constraints in the supply side (which affects SME performance) hence the need for Aid for Trade to be cognisant of that fact.

Edwin Zulu observed that there was some confusion in handling SMEs policies at ZDA. Regional growth is key but there is need for SME-specific programmes. There is need to quickly implement policies that the government and World Bank is outlining and to engage SMEs. He further requested the government to examine the operations of the 'enterprise development offices' at the provinces – who were often found missing. Finally, he added that the discussions on forming a growth triangle 'Zambia-Malawi-Mozambique' needed to be reviewed.

Question and Answer Session

At the end of the lecture, the audience was given an opportunity to raise questions or make contributions. The first one was on how the government intended to mitigate the high cost of electricity and fuel which was adversely impacting on SME growth. Chileshe indicated that from government's point of view, there was need to attract more investment in the energy sector in order to improve the performance of the sector and reduce the energy cost for SMEs. However, Mutati pointed out that current macroeconomic policies were also contributing to SME retarded growth e.g. exchange rate volatility, kwacha deterioration and Statutory Instrument (SI) 55.

The other concern raised was to find out the impact of SI 95 on trade, particularly the participation of SMEs. In this instance, SI 95 introduced a lengthy procedure in making transfers abroad which is a drawback on SMEs importing raw materials. Fundanga indicated that even before the SI, there was regulation on international money transfers. However, the SI might have been introduced to enforce the already existing requirement

but was not communicated to stakeholders properly, which could be a recipe for upsetting markets.

Similarly, there was a concern that the ceiling on the policy rate aimed at curbing risk lending in the financial sector was not favourable for SME growth. Fundanga was of the view that when policy rates were administratively fixed, they crowd SME investment. In order to curb risks in lending, government should have Credit Reference Bureau.

One of the participants inquired about the process of binding regional trade treaties and if they had any remedial measures for trade barriers. In this connection, another participant also wanted to find out if Zambia had domesticated the COMESA and SADC treaties. On the latter question, Chileshe informed that Zambia had domesticated both SADC and COMESA treaties. On the former, it was revealed that other countries within COMESA were not part of the free trade agreement (FTA) and therefore had sovereign rights not to follow the treaty. In this case, the only remedial measure was to urge, and not punish the non-FTA countries like Angola and Democratic Republic of Congo, to remove trade barriers.

Simon Ng'ona, Centre Coordinator, CUTS International Lusaka gave a vote of thanks and mementos were presented to the dignitaries.