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IMPLICATIONS FOR STRATEGY- MAKERS**

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**Issues and Realities Confronting Zambia's Efforts to
Export Services**

A Focus on Tourism Services and Mode 4

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ISSUES AND REALITIES CONFRONTING ZAMBIA'S EFFORTS TO EXPORT SERVICES A FOCUS ON TOURISM SERVICES AND MODE 4

1. Background, Mandate and functions of the Export Board of Zambia – In Brief

Zambia had been solely dependent on copper production for employment, foreign exchange and revenue generation to boost other economic activities. For many decades, copper mining accounted for over 90% of foreign exchange earnings and more than 10 % for the total wage employment. The sector also accounted (and continues) for the largest contribution to GDP.

In the mid-70s, the prices of commodities such as copper and cobalt started slumping. The fall in commodity prices coupled with the oil shock of late 70s and the increasing production cost of the metals adversely affected Zambia's progress in economic development. In early 1980s, government realised that a mono-cultural economy dependent only on copper mining for employment and foreign exchange generation, as well as supporting other economic activities, would not result in sustainable economic development.

In this regard, the government enacted the *Export Development Act* No. 25 of 1985 whose principal objectives were threefold:

- i. to establish the Export Council and the Export Board of Zambia;
- ii. to define the functions of the Council and the Board; and
- iii. to provide for matters connected with or incidental to the foregoing.

The Export Council was later scrapped and its powers vested into the Minister of Commerce, Trade and Industry by the amended Export Development Act of 1994.

Export Board of Zambia (EBZ) has the mandate of promoting the development and growth of non-traditional exports (NTEs), including services, thereby facilitating the diversification and expansion of the export base and increasing the actual export revenues. In line with the mandate, the Board undertakes a number of functions including the following:

- a. Promoting the development of non-traditional exports, including services in general, and of specific products and services by liaising with missions and organisations in export markets, by supporting trade fair participation, by undertaking trade missions and by engaging in other promotional activities;
- b. Advising exporters, potential and existing, on export markets, provide trade information on quality, supply and pricing of export products; on existing export regulations, export incentives and available technical assistance;
- c. On trade policy matters, representing the interests of exporters to government and its agencies and to recommend policies in relation to trade promotion, development of export production and to the regulation of export trade;
- d. Developing, or assist in developing, Zambia's human resources in export production and marketing through various training activities for officials, managers and technicians in the export sector.

Despite the fact that the Board's mandate extends to the promotion of services, its promotional programme has, until recently, been directed at promoting merchandise exports. Following the realisation that services offered another array for further and enhanced export diversification, the EBZ has realigned its export promotion programme to include services. The Board has been working with the International Trade Centre (ITC) to implement a regional services export promotion programme. The EBZ further intends to work with ITC to formulate and implement a comprehensive national services export strategy.

Notwithstanding the absence of this comprehensive strategy, the EBZ has made tremendous efforts in raising awareness of the need for government and all relevant stakeholders to support

the development of the services sector to ensure it contributes significantly to the export diversification efforts in Zambia.

2. Status of Zambia's Services Sector – An Overview

The Zambian services sector has recorded substantial growth over the past decade. It now accounts for about 64 per cent of GDP and over 60 per cent of the formal labour force. By 2002, the overall growth rate of the sector was more than double that of the economy as a whole. Most of the growth has been recorded in the business services followed by the financial services sub-sector whose growth is attributed to inter alia, proliferation of commercial banks and insurance services providers following the liberalization of the services sector in 1993. All the services sectors in 2004 registered a positive growth. The Tourism sector measured by activities in the hotels, bars and restaurants posted a growth of 5.5%. The Tourism growth was boosted by improved marketing and investments by the private sector and the increased frequency of flights to Zambia. However, it is recognized that other sectors could have been found to have contributed more to the growth but for lack of proper measurement mechanisms. Refer to Table 1 in the appendix.

In terms of exports, the services sector continues to grow although it has constantly been in deficit. See Table 2, also in the appendix. The deficit could partly be attributed to the ease with which huge imports transactions of insurance services in the mining sector is captured as opposed to the difficulty with capturing small but several export transactions from various sectors, and through various modes of supply. Zambia exports a number of services within and outside the region, especially under mode 4 (Movement of Natural Persons). Some of the destinations for Zambia's services exports include South Africa, Botswana, Burundi, Democratic Republic of Congo, Lesotho, Namibia, Rwanda, Tanzania and Zimbabwe. Services are also being exported to European Union economies, Switzerland, and the USA.

Table 3: Services Currently Being Exported from Zambia

GATS Sector/Subsector	Types of Services
Business services-Professional	Accounting Architectural services Engineering services Legal services
Business services – Computer services	IT services Software design Website design
Business services – Real estate	Corporate real estate
Business services – Other	Advertising Building cleaning Convention services Design services Equipment maintenance and repair Investigation and security services Management consulting Market research Packaging services Personnel placement Photographic services Printing and publishing Service incidental to agriculture Services incidental to energy/hydropower Services incidental to mining Surveying and mapping Technical testing services

Communications	Courier services Telecommunications
Construction	Construction services
Educational services	Education and Training services
Environmental services	Environmental services
Financial services	Insurance Banking Securities brokerage Asset management
Health-related and social services	Health services
Recreational, cultural and sporting services	Entertainment services Sporting services
Tourism and travel-related services	Tourism
Transport services	Air transport Land transport Customs and freight-forwarding Auxiliary support services

Source: Capacity Building to Promote Exports of Services from Zambia, Report 2002.

3. Issues and Commercial Realities: the Tourism Sector and Mode 4

3.1. Tourism Services

The suppliers of tourism services in Zambia include hotels and restaurants, tour operators, transport companies and travel agents. The Tourism Sector is fully liberalized. Zambia's efforts to promote the export of tourism services continue to face key issues and commercial realities. Some of these issues and commercial realities are highlighted below.

- **Competition among hotels at the international level**

As one provider of the tourism services, Hotels in Zambia, particularly those that have not affiliated themselves with foreign firms continue to face fierce competition from transnational hotel chains integrated through the GDSs and using very advanced marketing techniques including promotional offers during low seasons, corporate rates, loyalty programmes, alliances with airlines and many others. In addition, a number of smaller Hotels in Zambia have difficulties in improving the quality of their services to the level required by international demand mainly due to lack of capital. These compounded issues adversely affect the extent to which these hotels can participate in export of tourism services.

- **Infrastructure development-related issues**

To ensure that development of the tourism sector contributes significantly to export earnings and overall socio-economic development, calls for heavy investment in tourism infrastructure, including transport infrastructure, telecommunication and transport infrastructure, especially in tourist attraction areas and main tourism towns. This therefore, raises the need for the availability of capital from both public and private stakeholders to facilitate infrastructure development. Zambia continues to face difficulties in ensuring investment in tourism infrastructure.

- **Human resource development-related issues**

The demand for quality services is ever increasing. In this regard, the quality of the service provided by a given supplier has become a competitive tool in the service industry. The human factor plays a key role in determining the quality of the services offered by any service provider in whatever sector. It is therefore, a fact that the level of skill in the human factor will greatly impact on the quality of the service and ultimately the competitiveness of the service supplier. Zambia continues to have inadequate facilities and curricula to train the personnel for the tourism sector. This has ultimately affected the quality of the pool of personnel from which services suppliers can draw and hence their ability to upgrade the services to international quality standards.

- **Air access and travel**

Zambia continues to experience low international air traffic density. This, coupled with the lack of a national airline and other factors, has translated into higher airfares than those for competing destinations, as well as a longer travel time, given the scarcity of direct flights from and to countries of origin for most tourists. In addition, Zambia faces some deficiencies in the quantity and quality of supply of air transport infrastructure (airports and airstrips) mainly due to the very high capital, technological and skills requirements of such infrastructure.

3.2. Mode 4 (Movement of Natural Persons)

The recent years have witnessed increasing demand for certain skills. This is evidenced by some developments particularly in developed countries where among other things, some countries have extended the duration of temporary stay or have introduced schemes to enable skilled personnel from other parts of the world enter, stay and work in their countries. The greater number of work permits issued to foreign nationals to work in particular countries is also testimony to this fact. The number of permits for temporary-employment-based entry into Australia increased from 40,000 in 1992 to 120,245 in 2000, while the number of permanent entries remained at 50,000 to 60,000 during the period (UNCTAD 2003). In the United States, temporary-employment-based entries increased to 1,356,808 in 2001 from 441,078 in 1992 whereas permanent entries increased marginally to 83,150 in 2001 from 52,014 in 1992.

Zambia has not been left out in this movement. Different highly skilled personnel including engineers, medical doctors, architects, nurses and lecturers/teachers are constantly leaving Zambia and are working in countries mostly in the region or in the developed countries. However, these have been looked at from the (negative) perspective of “brain drain” rather than the positive as exports. This is notwithstanding the fact that the current structure of the Zambian economy is not able to absorb certain skills even though there are personnel being trained every year. As a result of this negative perception, the government has not paid particular attention to developing a strategy that would ensure Zambia gains maximum returns on its personnel working abroad.

Zambia has very few, if any, service-specific bilateral trade agreements with the destination countries. Due to the absence of mutual recognition agreements with regard to qualifications, personnel, especially nurses, continues to be employed under very unfavourable terms compared to nurses of destination countries’ origin. This is particularly true in the developed world. The lack of bilateral agreements also hinders movement of personnel as they, more often than not, have difficulties in securing visas and work permits.

Movement of natural persons with lower skills accounts for the largest share of international mobility, while the programmes in most destination markets favour and attract those with higher skills (UNCTAD 2003). Zambia is exporting semi-skilled personnel such as hairdressers, especially within the region. These also continue to face problems in some countries as they are only given a maximum period of 3 months in which the destination countries require them to return to Zambia to obtain new visas and work permits. This requirement and the absence of the necessary agreements certainly work counter to the efforts to export services.

4. Strategic Options

4.1. Strategic Options for the Tourism Sector

- **Joint activities of suppliers**

Smaller hotels should be encouraged to cut costs and improve their negotiating position by forming consortia to jointly perform activities such as market research; analysis of how to adapt to the specific needs and preferences of traditional and new tourists; marketing, including the production of guides and catalogues and the use of electronic media; dealing with tour operators or travel agents; negotiating to be included in GDSs; and technical assistance and management consultancy. Initiatives in this regard, should be supported and coordinated by the Zambia National Tourist Board or the Tourism Council of Zambia.

- **Infrastructure development related issues**

There is need to pool public and private resources to develop the tourism infrastructure. It is therefore essential to encourage initiatives that establish funds specifically targeted at the tourism sector. Where such funds already exist, there is need to pump in more resources. In this regard, more resources should be pumped into the Zambia Tourism Development Fund.

- **Human Resource Development and Upgrading**

Skills development offers Zambia the best option to increase the quality/cost ratio of services. It is therefore the key to increasing the bargaining power of tourism service suppliers. The service suppliers in Zambia stand to benefit from development and upgrading of skills, for personnel including operational, clerical, managerial and professional personnel.

There is need to improve the curricula of the National Hotel and Tourism School in Zambia. Currently, the highest qualification offered by the school is a diploma. Tourism-related courses also need to be introduced at university level.

There is also need to establish a Tourism Quality and Skill Standards and Certification System in Zambia. The system would clarify exactly what skills are needed in each business segment (Hotel and Restaurants, travel agencies etc), and what type of training, qualification and knowledge would develop such skills in employees.

Collaboration under regional trade agreements could be used to reduce the costs and resources required to establish quality standards. To encourage improvement of the skills of local suppliers, foreign investors could be provided with incentives for training their local personnel.

- **Diversification**

UNCTAD notes that diversification of the supply of tourism services is a key element in tourism development strategies. Diversification refers to the variety of services supplied both in different areas of the same country (seaside, mountains, rivers, lakes, deserts, cities) and within one government place (historical heritage, cultural activities and sites, sports, ecotourism, medical facilities, shopping centres, theme parks, restaurants, night-life). It tends to reduce dependency on a single factor (such as the weather or the Victoria Falls – in the case of Zambia) and the risks associated with a single factor (such as constantly changing fashion trends, or weakness in negotiations with tour operators), increase the attractiveness of a single country, lengthen the stay of tourists and increase their average spending.

Zambia has immense diversification opportunities for she is endowed with rich sceneries including rivers, lakes, waterfalls, valleys, hot springs, swamps, game parks and reserves, and a rich cultural heritage in addition to the good weather. However, there is a need to enhance the tourism infrastructure in these areas and to market the tourist attractions if diversification is to be successfully realized.

- **Air Access**

Zambia's priority should be to re-establish a national airline to enhance the efforts in promoting the tourism sector. Once Zambia has established the national airline, she would then consider establishing cooperation with foreign air carriers. This cooperation could take the form of a regional alliance.

Zambia could consider entering into a regional alliance where resources from companies from neighbouring countries could be pooled together thus increasing the volume of air traffic. Under the regional alliance airlines could pursue joint development plans, increase the supply of regional and possibly longer distance international air traffic, and enhance their negotiating power. By so doing, the alliance could become an interesting partner for larger carriers or alliances.

Regional trading agreements such as the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Cooperation can provide a framework for such an alliance.

There is also need to improve the airport and related infrastructure. It is gratifying that the Zambian Government is seriously considering establishing a national airline and that the process of upgrading rehabilitating the airport infrastructure has already commenced.

4.2. Strategic Options for Mode 4 (Movement of Natural Persons)

This constitutes most of the sectors of interest to developing countries and any market access restrictions in this regard limits the success of service exports.

- **Services-specific bilateral trade agreements**

As a way of getting around the problems highlighted above, Zambia needs to negotiate and conclude services-specific bilateral trade agreements especially with the main destination countries including South Africa, Botswana, Namibia, Lesotho, Swaziland or indeed with the Southern Africa Customs Union (SACU) to which these main destination countries belong. Zambia could also use the regional trade arrangements to which these countries and herself are members. Another country with which signing such agreements would be worthwhile is the United Kingdom, the main destination country for Zambian nurses. Signing these agreements would not only be beneficial to Zambia but also to the destination countries. The destination countries will benefit in that the agreement will ensure that their skills requirements are better met. Zambia will benefit in that access of its personnel to these markets is facilitated. Zambia could even better plan the training of personnel to meet the demand from the destination countries as she would have an indication of the numbers of specific personnel (skills) that would be required by a given country over a period of time. The agreements would also provide Zambia and the destination countries an opportunity to trade skills that are not covered under the General Agreement on Trade in Services (GATS). They would also facilitate recognition of the equivalency of qualifications for its personnel.

To successfully ensure recognition of qualification, there is need to maintain very high professional standards in all professional fields of endeavour in Zambia. It is also cardinal to enhance the capacity of regulatory authorities to ensure they certify professional qualifications in a way that technically and procedurally meets international standards.

After the Bridges Across Borders Services Workshop in Lusaka, I requested feedback from participants on their business breakthroughs. Most of the participants who responded indicated the problem of regulations relating to professional recognition in other countries.

This calls for regional standards of training and regional regulation of professionals such as accountants, engineers, lawyers, just to mention a few.

There are developments in the SADC Region to strengthen the Regional Professional bodies such as the SADC Lawyers Association. This should be extended to other professions.

5. Conclusion

Although the paper does not conclusively present the issues and commercial realities that Zambia is faced with in the endeavour to export services, it highlights some of the key issues and strategic options which can act as points for further discussion and analysis. It is hoped that the participants at the Executive Forum will further digest the issues and outline proposals on how Zambia can effectively harness her high potential and ensure export services reach their hype.

APPENDIX

Table 1

CONSTANT 1994 PRICES	1999	2000	2001	2002	2003	2004*
Primary sector	(2.3)	1.1	1.9	3.8	4.5	7.0
Agriculture, forestry, and fishing	10.1	1.6	(2.6)	(1.7)	5.1	4.2
Mining and quarrying	(24.8)	0.1	14.0	16.4	3.4	12.6
Secondary sector	2.9	4.0	7.5	7.2	10.9	7.4
Manufacturing	2.8	3.5	4.2	5.7	7.6	5.2
Electricity, gas, and water	2.5	1.2	12.6	(5.2)	0.6	(1.8)
Construction	3.2	6.5	11.5	17.4	21.6	14.6
Tertiary sector	4.1	4.5	5.3	1.9	3.4	3.3
Wholesale and retail trade	4.5	2.3	5.4	5.0	6.1	5.4
Restaurants and hotels	(6.2)	12.3	24.4	4.8	6.8	5.7
Transport, storage, and communications	5.7	2.4	2.8	1.8	5.0	6.3
Financial intermediation and insurance	2.5	(0.6)	0.1	3.5	3.4	3.5
Real estate and business services	13.8	17.0	3.5	4.4	4.0	4.0
Community, social, and personal services	8.4	(0.5)	5.8	1.6	1.5	0.6
Other	(9.8)	7.5	10.6	(13.8)	(7.8)	(7.6)
Taxes	(4.5)	5.2	7.0	(6.8)	(2.9)	(2.5)
FISIM	2.5	2.5	2.5	2.6	2.5	2.5
GDP at Market Prices	2.2	3.6	4.9	3.3	5.1	5.0

Source: Central Statistical Office and Ministry of Finance and National Planning

* Preliminary

Table 2

Table 5.4: Balance of Payments (In US \$ millions), 2001-2004

	2001	2002	2003	2004
	Est.	Est.	Est.	Est.
Current account balance	(758)	(652)	(700)	(642)
Trade balance	(342)	(259)	(311)	(109)
Exports, f.o.b.	884	916	1,052	1,588
Metal sector	590	560	669	1103
Non-metal	295	357	383	485
Imports, f.o.b.	(1253)	(1204)	(1,393)	(1,727)
Metal sector	(310)	(176)	(169)	(286)
Non-metal	(943)	(1028)	(1,224)	(1,441)
Goods procured in ports by carriers	27	28	29	31
Services (net)	(228)	(245)	(238)	(254)
Receipts	144	136	165	176
Payments	(372)	(381)	(403)	(456)
Income (net)	(168)	(155)	(148)	(304)
Of which: interest payments	(144)	(137)	(131)	(117)
Current Transfers (net)	(20)	7	(3)	(25)
Capital Account 5/	222	238	380	367
Project grants (capital)	222	236	240	246
Financial Account	245	2	140	121
Official loan disbursement (net)	(96)	(122)	(141)	(114)
Disbursement	136	111	101	110
Amortization (-)	(233)	(234)	(242)	(224)
Change in net foreign assets of commercial banks	9	(53)	48	(90)
Private capital (net)	301	178	233	324
Foreign direct investment	72	0	172	334
Errors and omissions, short term capital	(75)	31	(2)	50
Overall balance	(399)	(383)	(321)	(225)
Financing	399	383	321	225
Change in net international reserves of Bank of Zambia (- incr) 1/	(124)	(225)	(164)	(41)
Gross official reserves of BoZ	0	(169)	87	(25)
BoZ liabilities	(5)	(6)	(6)	(6)
IMF (net)	(119)	(50)	(244)	(10)
Other foreign assets of BoZ				
Debt Relief	436	437	391	276
Debt relief (non-HIPC) 2/	170	171	154	120
Debt relief (HIPC, including IMF)	266	266	237	156
of which IMF	150	153	171	0
Paris Club	65	64	16	100
Other Debt Related Items	(19)	21	(10)	(14)
Net change in arrears (+ incr)	31	12	48	(60)
BOP support grants	31	69	45	44
BOP support loans 1/	44	69	10	21
Financing gap (+)	0	0	0	0
Memorandum items:				
Nominal GDP (millions of US \$)	3,640	3,776	4,318	5,409
Current account balance excluding grants (percent of GDP)	(20.8)	17.3	(16.2)	(11.9)
Terms of trade (percentage change)	(1.7)	(6.7)	4.2	20.3
Copper volume (MT, '000)	297	330	353	384
Copper price (US\$/lb)	0.77	0.7	0.78	1.16
Gross official Reserves 3/	114	283	197	222
Debt service cash payments (\$Um)5/	142	123	187	373
Official budget debt service	70	50	108	114

Source: Bank of Zambia and Ministry of Finance & National Planning