

Strategic issues for Zambia's industrial development: Regional integration, competition and linkage development

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Structure

- Characterising performance of Zambia's industrial sector:
 - Macroeconomic and trade trends

- Strategic issues:
 - Regional economy
 - Competition in inputs markets
 - Linkages

Industry trends: main sector contributions to GDP

- Drivers of overall growth: mining sector → transport & communication; construction; ICT; retail; government services
- Key factors: copper price boom, stepped up infrastructure spending, rising urban incomes
- Manufacturing: more than doubled in absolute terms, good growth performance, still small in relative terms

ZMK millions, constant 2010 prices

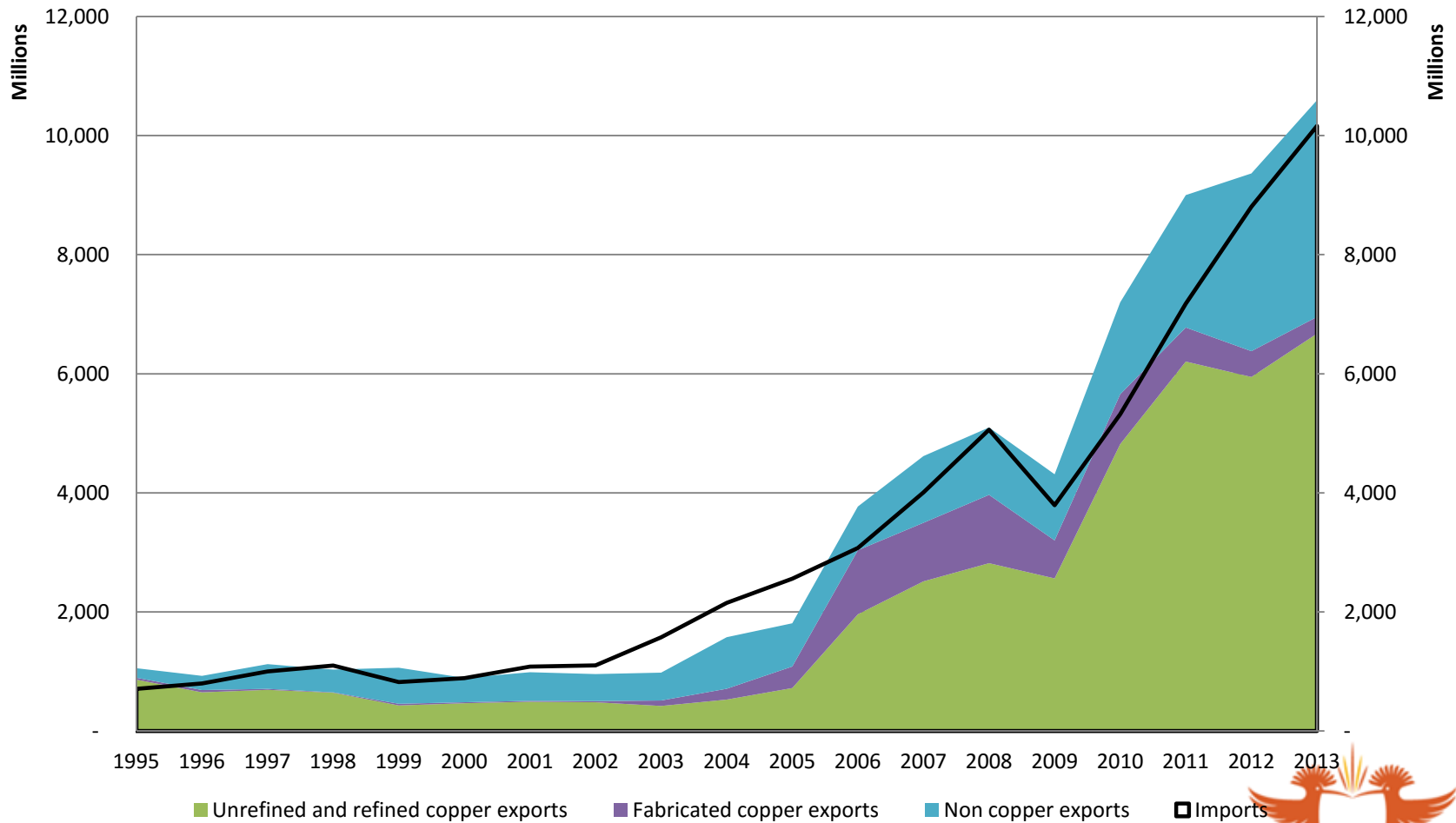
	2000	2013	2013 % total GDP	2000-2013 CAGR
Agriculture, Forestry and Fishing	11,261.0	10,259.1	8.7	-0.7
Mining and Quarrying	1,972.1	12,225.6	10.4	15.1
PRIMARY SECTOR	13,233.1	22,484.7	19.1	4.2
Manufacturing	4,642.2	9,289.8	7.9	5.5
Electricity, Gas and Water	1,500.5	2,177.8	1.8	2.9
Construction	3,513.1	14,596.4	12.4	11.6
SECONDARY SECTOR	9,655.9	26,063.9	22.1	7.9
Wholesale and Retail trade	8,905.1	20,982.8	17.8	6.8
Transport, Storage and Communications	1,543.2	10,701.2	9.1	16.1
Financial Intermediaries and Insurance	4,049.4	5,369.9	4.6	2.2
TERTIARY SECTOR	23,969.5	65,445.0	55.6	8.0
TOTAL	47,404.9	117,743.1	100	7.2

Employment data

- Key challenge: growing formal employment
- Agriculture (informal) dominates employment
- In absolute terms, manufacturing employment increased fourfold in 2005-2012
- Approx. 1/3 of total manufacturing jobs in the formal sector = 9% of formal employment in 2013 – the fourth largest source of formal jobs after education, trade (retail, wholesale, distribution), and agriculture
- Still less than 4% in 2012
- Mining not generating employment; linkages to other sectors, and incomes to trade jobs are critical

Industry	Employed population (number, % total employment)		
	2005	2008	2012
Total	4,131,531 (100)	4,606,846 (100)	5,499,673 (100)
Agriculture, Forestry and Fishing	2,983,968 (72.2)	3,284,208 (71)	2,872,331 (52.2)
Mining and Quarrying	166,143 (4)	92,810 (2)	88,251 (1.6)
Manufacturing	55,499 (1.3)	159,194 (3.5)	216,660 (3.9)
Construction	33,399 (0.8)	80,255 (1.7)	187,906 (3.4)
Trade, Wholesale and Retail Distribution	88,080 (2.1)	425,209 (9.2)	645,571 (11.7)
Transport and communication	22,773 (1)	94,800 (2.1)	137,301 (2.5)

Zambia's trade profile (US\$mn)



Largest NTEs (US\$millions)

(NB cereals, animal fodder and milling products closely related)

	2003	2008	2012	2013	CAGR 2003-2013
Cement	11,239	33,738	120,979	274,232	38%
Tobacco	22,318	71,893	156,797	216,948	26%
Sugars and sugar confectionery	33,289	64,276	143,576	188,910	19%
Cereals	6,678	51,411	419,761	161,686	38%
Cotton	53,830	39,081	132,488	85,598	5%
Animal fodder	1,365	4,962	131,737	80,732	50%
Milling products	5,261	33,268	36,122	68,217	29%
Essential oils; perfumery, cosmetic or toilet preparations	849	3,019	12,774	65,846	55%
Iron and steel	2,806	10,279	54,803	54,982	35%
Raw hides and skins (other than furskins) and leather	2,693	5,898	6,582	50,052	34%
Total	140,330	311,928	1,215,620	1,247,205	
% total exports	14%	6%	13%	12%	

The regional economy: markets

Regional exports overwhelmingly composed of value added products: cement, cereal products, animal fodder, metal products

Markets

- Growth in regional demand for processed foods and construction inputs driven by rising urbanization rates and growing middle class consumption.
- Food– the largest component in HH consumption except SA and Namibia
- In some products, SADC markets grew faster than the world average
- Regional markets - lower entry barriers, transport costs, ? FTA

Regional FDI into Zambia's production capabilities

- Poultry value chain: Astral and Rainbow investment
- Soybean production – threefold increase, 60-70 000t in 2010 to over 200 000t in 2013. Investments in crushing capacity at 400 000t/y in 2014 (Takala-Greenish *et al.*, 2015). Broiler production – threefold increase in 2009 - 2012 (Bagopi *et al.*, 2014).
- Since 2008, animal fodder producers moved into the export market
- Metal fabrication: Investment from SA, Egypt, East Africa

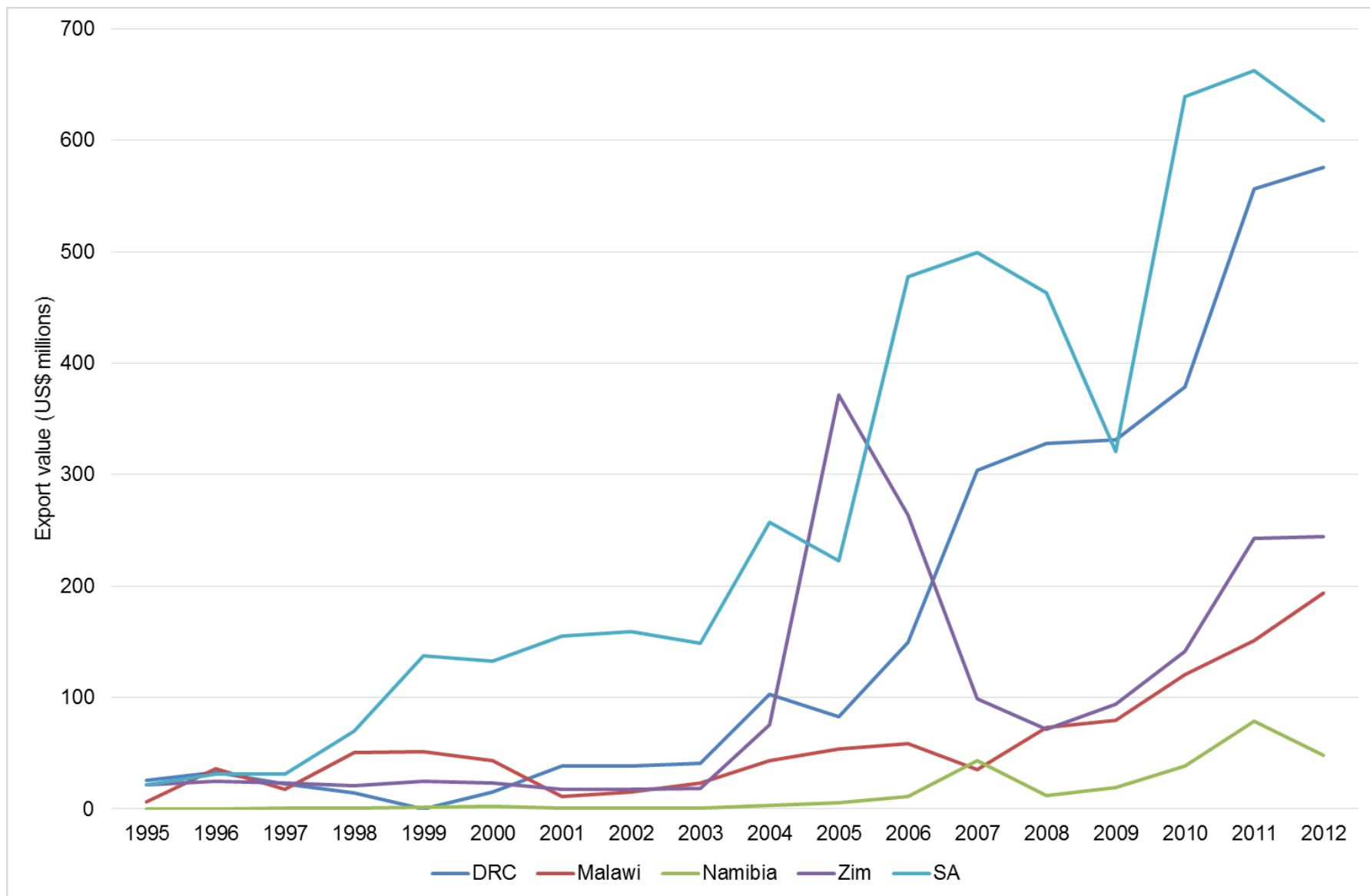
Regional linkages

- Mining inputs SA-Copperbelt.



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Zambia's exports to the region



Linkage development

- Strong opportunities for local suppliers to fast growing mining and supermarkets value chains
 - Lower barriers to entry than overseas markets
 - Transport cost advantages
 - South Africa is a regional mining inputs hub
 - Region is largest destination for Zambia's NTEs and strategically important for Zambia's value-added industries, and for smaller sized, diversified exporting firms.
 - High growth markets for sugar confectionery, prepared foods, poultry, etc.
- Local suppliers currently positioned in low value added activities
- Need to upgrade performance in terms of consistency of quality and volumes, price, lead times and standards compliance.
 - Linkage development strategies require a combination of government and firm interventions
 - Alignment of local content policies to support a regional strategy

Competition

- Cases of low levels of competition undermining competitiveness of downstream activities (examples in cement, poultry inputs, sugar)
 - Sugar - while Zambia is one of the lowest cost producers in the world, sugar is not a cheap input for downstream industries
 - Poultry – vertically integrated, very concentrated. Day-old chicks at double South Africa prices, and high feed prices inhibiting independent local producers and non-integrated entrants
 - High cement prices raises cost of infrastructure investments, housing
- Progression from support for upstream investment to ensuring competitive upstream production flows through to downstream diversified activities
- Integration of regional markets has potential to increase competitive rivalry
- Support entrants → investment and downstream growth
- Where industries and consumers are located is important
- Example of opening up road transport across Zambia, Zimbabwe and South Africa increasing competition in fertilizer trading.