

# 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

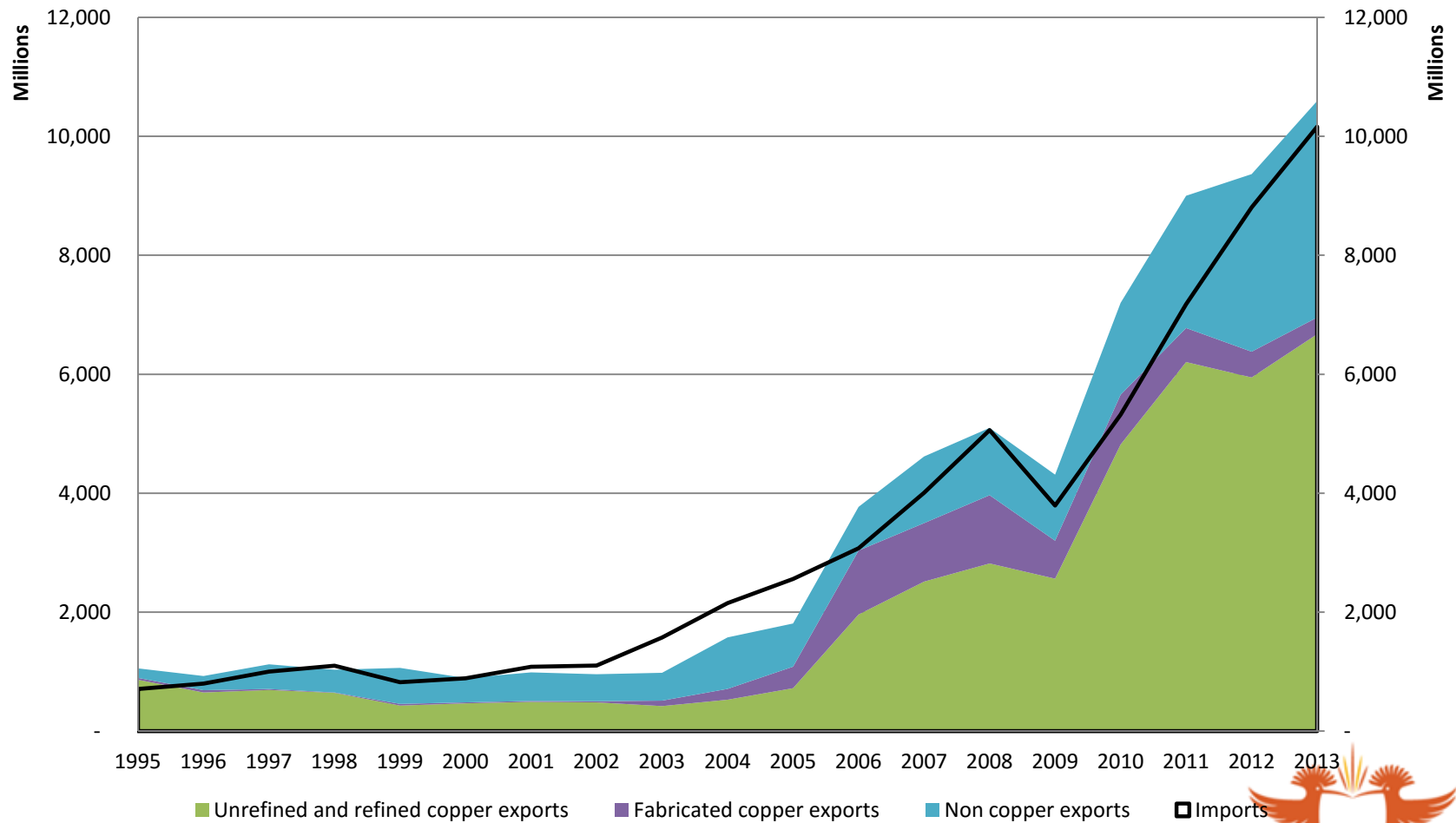
	2000	2013	2013 % total GDP	2000-2013 CAGR
Agriculture, Forestry and Fishing	11,261.0	10,259.1	8.7	-0.7
Mining and Quarrying	1,972.1	12,225.6	10.4	15.1
<b>PRIMARY SECTOR</b>	13,233.1	22,484.7	19.1	4.2
<b>Manufacturing</b>	4,642.2	9,289.8	7.9	5.5
Electricity, Gas and Water	1,500.5	2,177.8	1.8	2.9
Construction	3,513.1	14,596.4	12.4	11.6
<b>SECONDARY SECTOR</b>	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
<b>TERTIARY SECTOR</b>	23,969.5	65,445.0	55.6	8.0
<b>TOTAL</b>	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
<b>Total</b>	4,131,531 (100)	4,606,846 (100)	5,499,673 (100)
<b>Agriculture, Forestry and Fishing</b>	2,983,968 (72.2)	3,284,208 (71)	2,872,331 (52.2)
<b>Mining and Quarrying</b>	166,143 (4)	92,810 (2)	88,251 (1.6)
<b>Manufacturing</b>	55,499 (1.3)	159,194 (3.5)	216,660 (3.9)
<b>Construction</b>	33,399 (0.8)	80,255 (1.7)	187,906 (3.4)
<b>Trade, Wholesale and Retail Distribution</b>	88,080 (2.1)	425,209 (9.2)	645,571 (11.7)
<b>Transport and communication</b>	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

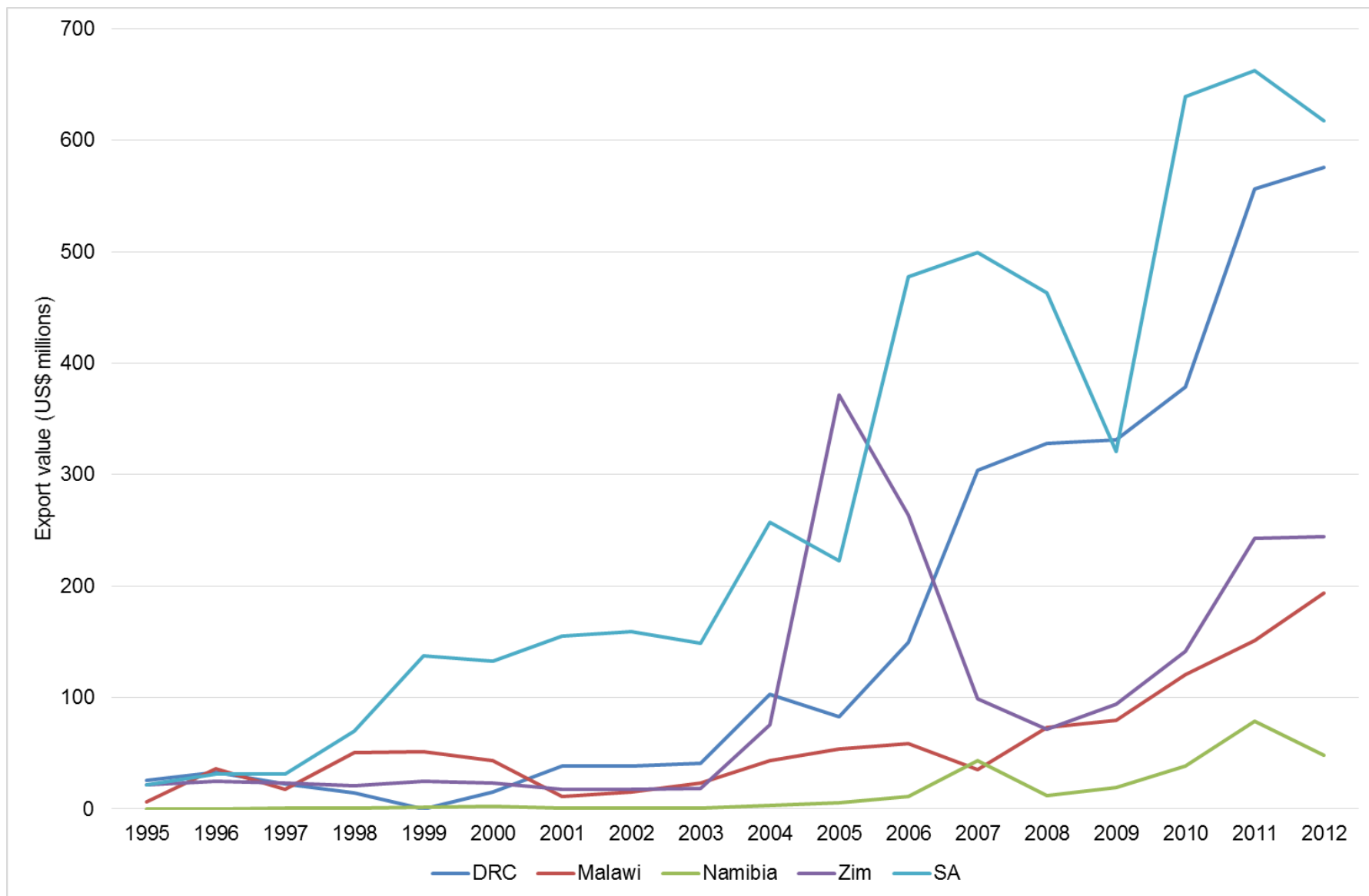
- Mining inputs SA-Copperbelt.



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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.