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PROMOTING COMPETITIVENESS OF SERVICES TRADE IN THE CONTEXT OF THE GATS DEVELOPMENTAL FRAMEWORK IN ZAMBIA

VOLUME THREE, MARCH 2026

POLICY BRIEF

PROMOTING COMPETITIVENESS OF SERVICES TRADE IN THE CONTEXT OF THE GATS DEVELOPMENTAL FRAMEWORK IN ZAMBIA

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KEY TAKEAWAYS

Services are critical part of any modern economy and are central to economic growth and development. They are key to spurring the diversification of production and global competitiveness that is essential for overcoming the low- or middle-income trap. Recognising the importance of generating competitiveness, Zambia, through regional and multilateral organisations have engaged in services liberalisation using the GATS approach. The country has a moderately liberal services sector with free foreign entry in most sectors.

Despite progress to reform the services sector, the export volumes remain low, while the sector remains disorganized in many respects. This brief finds that Zambia can benefit by further reorganizing and reforming the services sector.

KEY RECOMMENDATIONS

The key recommendations of the brief are:

1. Improve the domestic organisation of the services sector by forming a multisectoral services development council to promote and coordinate the sector to trigger competitiveness.
2. Enhance the liberalisation of the services sector through the GATS 4 plus five strategies through WTO and regional services liberalisation. This should involve harmonising the commitments across RECs. To increase transparency and reduce the administrative burden of managing different offers across different regional organisations.
3. Improve the collection of statistics on services by creating and improving data systems appropriate to the national services export strategy -such as health services and educational services exports.
4. Activate the local content policy in the services sector to promote local participation: This can be varied across services such as limiting foreign ownership and encouraging listing as publicly listed companies to facilitate local participation (in sectors such as in insurance companies, banking , mobile phone networks, large FDI service firms etc), increase the share of Zambian produced goods stocked with additional outlets for retail and distribution services and cabottage rules for transport and logistics services,
5. Improving the frontiers of competitiveness that include the innovation ecosystem, which include the volatile macroeconomic conditions, low and inadequate innovation and ICT due to limited skilled human resources, inadequacy of credit etc. Government should address the human resources skill mismatches by upskilling and reskilling its large human resources.

INTRODUCTION

The services sector and trade are a critical part of any modern economy and are central to economic growth and development. Services directly contribute to national income and job creation while providing critical inputs to other production and export activities such as manufacturing, agriculture, mining and services themselves. Many services such as telecommunications, ICTs and finance serve as inputs that tend to make the difference between rapid and sluggish growth critical for international competitiveness and diversification of production and trade that is essential for overcoming the low- or middle-income trap (World Bank, accessed on *GEP2002Chap3.pdf*)

Given the importance of services in economic development, the World Trade Organisation (WTO) introduced services trade as part of the Uruguay Road of trade negotiations under the General Agreement on Trade in Services (GATS). The negotiations under the GATS were expected to take care of the interest of developing countries and enhance the development process. Under the negotiations countries were expected to commit some sectors. Zambia on its part opted to commit a few sectors building on the unilateral initiatives that began in the mid-1980s and accelerated in 1991 that left foreign participation open. As part of the GATS commitments under the Uruguay round, Zambia opted to commit a few subsectors in business services, construction, health and tourism that were already highly open.

Further commitments have been made for transport, communications, financial and tourism services under the Common Market for Eastern and Southern Africa (COMESA), the Southern Africa Development Community (SADC) and the African Continental Free Trade Area (AfCFTA). The commitments under these schedules vary in detail and level of liberalisation. The subsequent round of negotiations under these regional economic communities are focused on opening the remaining sectors including energy, distribution, professional services, construction, health, computing services and other business services. Progress has been made unilaterally, at regional and multilateral levels. The entry by foreign service providers in the country is fairly liberal in most sectors. There are very few restrictions inhibiting trade in services (Ndulo and ?). However, the commitments at WTO and regional economic communities are mainly broad and lack clarity at subsector level while commitment within regional trade arrangement have different levels of detail and clarity across priority's sectors.

The status of the services sector suggest that Zambia can benefit from complementary policies and improved organisation of the sector by refining the commitments based on the GATS developmental provisions.

The objective of this policy brief is to highlight the status of selected services sectors in Zambia and propose strategies and complementary policy reforms that could be used to enhance their competitiveness using the developmental aspects of the GATS agreement.

Despite many years of services sector reform efforts, services trade in Zambia remains low relative to their contribution to national output and employment. In 2025, services accounted for 66.2% of national output and about 60% of formal sector employment (ZSA database). However, services trade accounted for 9.6% total trade which remains low given their dominance in the country's output and level of development. The country is a net importer of services, with a deficit of US$556.4 million in 2024. The services exports are weakly diversified and concentrated in traditional and globally declining sectors of transport and travel/tourism services accounting for over 75% of services exports (Mudenda, 2024).

Most of the producer-input services like air transport, telecommunications and financial services (banking), retail and distribution services are predominantly foreign owned while regulations allow for 100% foreign ownership. In the insurance sector, the Act obliges brokers to be domestically owned and places limits on foreign shareholding in life insurance, requiring firms to be listed into publicly limited companies on the local stock market, which, has not fully been effected. Also, Zambia has untapped export potential for both traditional and modern services like tourism, education services, information communication technology enabled services, business related services and loyalties? due.

Studies such as Ndulo and Chanda (2016) and Mudenda (2024) show that the services sector is inefficient and weakly organised and compounded by weak frontiers of competitiveness such as limited skills, limited digitisation of the economy and buttressed by a weak macroeconomic environment. Transport, energy, financial and telecommunications services are either unreliable or too costly for investors. Some indicators including straight forward comparisons with peers (such as Uganda, Ghana Kenya, Namibia and Mauritius) show that the country faces many regulatory and structural weakness that negatively affect its competitiveness. Zambia scores poorly in the frontiers of competitiveness that include enabling environment, infrastructure (ICTs), human capital (skills and health), innovation ecosystem and markets. The administrative and regulatory environment is perceived to be weak (with multiple and uncoordinated regulators), lacks transparency and a strategic design that promotes domestic and foreign participation. These impediments tend to raise the cost of production across sectors making exporters uncompetitive in the global markets.

Policy makers should work towards spurring competitiveness in the services sector through an efficient domestic services sector supported by least cost administrative and regulatory frameworks that build local capacity and participation. This can be achieved in key sectors by entrenching the regulatory and policy reforms at WTO using the General Agreement on Trade in Services (GATS) 4 plus 5 strategies.

POLICY RECOMMENDATIONS

Strengthen the organisation of the services sector by actualising the establishment a services development and coordination council - this should be a multi-sectoral committee comprising experts from various sectors with a mandate to coordinate, develop and ensure policy coherence across inter-related sectors. The coordination of services can improve the administrative and operational efficiency that can help to lower costs.

Enhance the liberalisation of services through the 4 plus 5 strategies through unilateral liberalisation of key intermediate service sectors at WTO and regional services liberalisation. Tis approach will ensure that sectors critical to reducing costs are addressed. Zambia can strategically bind the producer input supplier sectors at WTO and attach conditions that promote local participation and development purposes as provided for under the GATS. In general, investors in the services sector should be required to list on the stock markets with a goal of building the capital market and domestic participation. In this regard, policy makers should enforce the insurance Act 2021 that has potential to enhance competition in services markets with economywide effects.

Harmonise the sector level commitments across regional economic communities. Zambia could use the regional integration platform in services to entrench its wider integration in the global market. This should involve the harmonisation of the commitments and offers under various regional and multilateral trade arrangements. The harmonisation of the commitments would increase transparency and reduce the administrative burden of managing different offers across different regional organisations. This may involve reviewing the various offers and commitments made under different regional and multilateral organisations.

Activate the local content policy in the services sector to promote local participation: Most service sectors such as banking services, tourism, distribution, transport and logistics services are predominantly open and foreign owned. In the distribution services shops stock imported products, periodically scale down when tax holidays end or when faced with economic turbulence. In addition, some supermarkets establish outlets within short distances often driving out local investors. The policy could include firstly; the strengthening of the local content requirement in terms of share ownership across key services sector and tie the establishment of additional outlets for supermarkets to a minimum share of locally sourced goods that should be sold in a supermarket in line with ideas in the insurance Act No. 38 of 2021 Act). Secondly, staggering opening hours for large multinationals by requiring them to close earlier than the small local shops to enable them get markets after hours especially in high density areas and rural towns. Secondly, large supermarket can have a limited number of outlets within a specific radius or population catchment area. Additional outlets in such areas can attract higher taxes.

The binding could be extended to the insurance sector as a way of entrenching the domestic regulation that require minimum local shareholding. In this regard, policy makers should accelerate the reforms in the insurance sector by the implementation of the No. 38 of 2021 Act which rationalises the shareholding and stock market listing requirements aimed at increasing local participation. The banking sector is predominantly foreign owned. Local participation could be increased. Beyond the stock market listing requirements, regulators can devise policies to lower the cost of borrowing by devising strategies to increase competition. These could include permitting local firms to borrow cheaper finances from across borders tax free.

Finally, improving economic competitiveness and services exports agenda needs measures that go beyond the removal of formal restrictions to also cover regulatory reforms to foster transparency and create an enabling environment such as reductions in the restrictiveness and improvements in the rule of law and regulatory quality, setting standards, accreditation processes, and quality control measures, while protecting domestic consumers. The reforms should include:

- Improving the frontiers of competitiveness that include weak innovation ecosystem, low and inadequate innovation and ICT related skilled human resources relative to comparator countries. Policy makers should address the human resources skill mismatches by upskilling and reskilling its large human resources. In the short term, Zambia could consider facilitating the entry of foreigners with special skills to boost the domestic skills in specialised areas such as science and ICTs to alleviate the challenge. In the long term, government could leverage on the short-term measures to strengthen its basic and skills development programmes to match the national needs.
- Policy makers should create competitive advantage in the export of many services such as health and education services that the country is currently a net importer. In the education sector, Zambia has already signalled its capacity as a potential destination of higher education training in the region. Zambia can build on this position by establishing a brand of world class higher education institutions that can produce highly qualified graduates for both domestic and regional markets in industry

and services. This will require strengthening the regulatory and quality assurance frameworks as a way of creating credibility of both the private and public providers. The country could also promote transnational arrangements with foreign partners to facilitate the movement of both national and international students. Similar arrangements could be explored in the health sector, especially focusing on specialised treatment such as cancers and cardiac conditions that the region imports.

- Services regulatory institutions should be adequately financed and staffed with skilled individuals to allow for timely responses to regulatory challenges as well as the creation of user-friendly guidelines. In addition, policy makers should enhance the collection of services data in terms of sources and destinations of services to inform policy.
- Finally, government should pay attention to monitoring and evaluation of the services sectors and facilitate the data collection mechanism to inform its policy decisions

CONCLUSION

Services offer an opportunity for policy makers to diversify its exports and induce competitiveness in the goods sector and the economy as whole. Zambia has since 1995 made marginal liberalisation of various service sectors. The reforms have mainly been through regional integration schemes rather than WTO. However, the commitments have in most cases been fragmented and not far reaching to entrench the required competitiveness. Policy makers should with full participation of the private sector make strategic commitments under WTO that allow the country to attach conditions for development purposes, using GATS articles IV and XIX.

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