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TRADE POLICY REVIEW OF ZIMBABWE

The opening of Zimbabwe's foreign trade régime, together with fiscal stabilization and domestic deregulation, is a key pillar of the country's comprehensive economic reform programme undertaken since 1991 after several decades of import-substitution policies, says the GATT Secretariat's report on Zimbabwe's trade policies and practices. The objective of these reforms is to break from the mediocre economic performance of recent years and achieve more rapid and balanced economic growth.

A hallmark of Zimbabwe's reform is the virtual elimination of import licensing, made possible by a realignment of the exchange rate for the Zimbabwe dollar and the removal of regulations restricting access to foreign exchange. Prior to 1990, all imports required licences. The list of imports not requiring licences was gradually enlarged. In January 1994, all goods except those on a published negative list became importable without licence. Many textiles and clothing articles remain on the negative list, but are expected to be removed in mid-1995, concurrent with the introduction of increased tariffs on these products. Import permit requirements remain common, particularly in agriculture. The Government has also sought to encourage foreign investment by eliminating restrictions on the repatriation of dividends and streamlining the investment approval process.

"Unfortunately," says the report, "Zimbabwe has made little in the way of a multilateral commitment to maintaining this new outward economic orientation. Only a small portion of Zimbabwe's tariff lines are bound in the GATT and implementation of the Uruguay Round results will lead to only a handful of new tariff bindings for industrial products. The low rate

of bindings is particularly serious because in late 1993 the Government approved radical increases in statutory tariff rates, reportedly to rates as high as 100 or 150 per cent. Moreover, although Zimbabwe has bound all its agricultural tariffs under the Uruguay Round Agreement, the ceiling rates introduced on most products are many times higher than the currently applied tariffs."

Sectoral policies are of importance especially in agriculture, where marketing of many commodities has been under strict state controls. The liberalization of maize marketing is among the most publicized of all economic reforms. While domestic marketing reform has taken great strides, export marketing (with the important exception of tobacco) continues to be reserved for , or dominated by, state-controlled marketing boards.

Reform of the import licensing and foreign exchange régimes are expected to prove particularly beneficial for export-oriented sectors such as agriculture and mining. These sectors seem to have been among the worst affected by the previous import substitution policies.

"Zimbabwe has made great progress in recent years toward opening its economy," summarizes the report. This reform programme was undertaken largely autonomously. Measures by other countries in the multilateral context of the Uruguay Round should be a strong complement to these reforms, particularly if there is a commitment to more tariff bindings by Zimbabwe. As Zimbabwe's reforms feed through to business, and economic operators begin looking more and more to foreign markets, they should find import barriers falling and export opportunities expanding. This will further reinforce the domestic benefits of the reform process.

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Government of Zimbabwe will be discussed by the GATT Council on 1-2 December 1994 under the Trade Policy Review Mechanism (TPRM). This is the first review of Zimbabwe since the launching of the TPRM in December 1989.

2. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals, to monitor significant trends and developments which may have an impact on the global trading system.

3. The two reports, together with a record of the Council's discussion and of the Chairman's summing up, will be published in due course as the complete trade policy review of Zimbabwe and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

4. The reports cover developments in all aspects of Zimbabwe's trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are the summary observations from the Secretariat's report and a summary prepared by the Zimbabwe Government of its own report. Full reports will be available for journalists from the GATT Secretariat on request.

MORE

5. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990, 1992 and 1994), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 & 1993), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991), Japan (1990 & 1992), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Tunisia (1994), Turkey (1994), the United States (1989, 1992 and 1994), and Uruguay (1992).

TRADE POLICY REVIEW MECHANISM
ZIBABWE

Report by the Secretariat - Summary Observations

After several decades of import-substitution policies, Zimbabwe began comprehensive economic reforms in 1991. The objective of these reforms is to break from the mediocre economic performance of recent years and achieve more rapid and balanced economic growth. Along with fiscal stabilization and domestic deregulation, the opening of the international trade system is a key pillar of the economic reform programme.

The opening of Zimbabwe's market is leading to important changes in the way that the country trades. A realignment of the exchange rate for the Zimbabwe dollar and the removal of regulations restricting access to foreign exchange have made it possible to virtually eliminate import licence requirements. Import surcharges in excess of tariffs have been reduced and are scheduled to be phased out by mid-1995. The Government has also sought to encourage foreign investment by eliminating restrictions on the repatriation of dividends and streamlining the investment approval process.

Unfortunately, Zimbabwe has made little in the way of a multilateral commitment to maintaining this new outward economic orientation. Only a small portion of Zimbabwe's tariff lines are bound in the GATT and implementation of the Uruguay Round results will lead to only a handful of new tariff bindings for industrial products. The low rate of bindings is particularly serious because in late 1993 the Government approved (but has not implemented) radical increases in statutory tariff rates, reportedly to rates as high as 100 or 150 per cent. Moreover, although Zimbabwe has bound all its agricultural tariffs under the Uruguay Round Agreement, the ceiling rates introduced on most products are many times higher than the currently applied tariffs.

Zimbabwe in World Trade

Following many years of slow and sporadic economic growth, Zimbabwe's per capita income stands at about US$400 a year. The strengths of the economy appear to be in the primary sectors of agriculture and mining, and in the manufacturing industries associated with the processing of primary products. The agricultural sector accounts for about 20 per cent of GDP and one half of total merchandise exports. Mining accounts for about 5 per cent of GDP and one quarter of merchandise exports. Zimbabwe's manufacturing sector is large and diversified in comparison with other economies of similar size, reflecting years of import substitution policies; among the largest manufacturing industry groups are food and beverage products, textiles, and iron and steel. Zimbabwe's imports are largely in manufactures (chemicals, non-electric machinery, and automotive products) and fuels.

Over 40 per cent of Zimbabwe's non-gold merchandise exports have been destined for the European Union in recent years, although this share has been declining. Nearly 20 per cent of exports are to the Republic of South Africa,and some 15 per cent of exports are to other African countries. Approximately one third of merchandise imports originate from

the European Union, while some one quarter of imports are from South Africa. Other African countries account for only a few per cent of Zimbabwe's imports.

Trade Policy Framework

Zimbabwe, independent since 1980, has a unicameral Parliamentary system of government, with a President and two Vice Presidents. Cabinet officers are appointed by the President; key cabinet posts with regard to economic policymaking include the Senior Minister for Finance, the Minister of Industry and Commerce, the Minister of Lands, and the Minister of Mines. Provisions of international treaties become part of Zimbabwe law when specifically incorporated into law by an act of Parliament. Although neither GATT nor, in the future, the WTO Agreements are directly applicable under Zimbabwean law, Zimbabwe's legislation reflects its obligations. The centrepiece of Zimbabwe trade legislation is the Customs and Excise Act, which, among other things, gives the President broad powers to enter into agreements regarding tariffs and some other areas of trade policy as well as the power to make regulations giving effect to such agreements.

The country is an original signatory (as Southern Rhodesia) to the GATT, with membership dating from 11 July 1948, and grants m.f.n. treatment to all countries, regardless of whether they are GATT contracting parties. Zimbabwe participated throughout the Uruguay Round and displayed particular interest in the successful conclusion of the negotiations on agriculture.

Zimbabwe is a member of the Preferential Trade Area for Eastern and Southern African States (PTA) and extends substantial tariff preferences to other member States. It has bilateral agreements with neighbouring Botswana, Namibia, and the Republic of South Africa. Zimbabwe receives GSP preferences from 16 trading partners and enjoys preferential access to the EU market under the Lomé Convention.

Trade Policy Features and Trends

Recent evolution

The highly restrictive trade and domestic policies that were developed in the former Rhodesia during the period of the Unilateral Declaration of Independence (UDI) persisted in Zimbabwe following independence in 1980. These policies consisted of administrative setting of the exchange rate, government control of imports through near-universal, non-automatic import licensing requirements, tight restrictions on the repatriation of dividends for foreign investors, internal price controls, government control of agricultural marketing, and a complex web of related programmes and exemptions. While insufficient data were available to draw clear conclusions, it appears that these measures harmed Zimbabwe's actual and potential export industries and consumers, while supporting the production of many goods that could more efficiently have been imported. As the Government recognized, these policies also depressed investment and retarded growth.

Dissatisfied with the mediocre economic performance of the 1980s, the Government began its initial reforms late in the decade. In 1991 it published its Framework for Economic

Reform, a five-year plan that has guided subsequent reforms. The schedule was delayed as a result of major drought in 1992; however, the Government has since taken steps that reaffirm its commitment to reform.

Type and incidence of trade policy instruments

Zimbabwe's tariff schedule is based on the Harmonized System and contains 7,519 lines at the 8-digit level. Ad valorem tariffs are applied on about 98 per cent (7,334) of tariff lines. In addition to tariffs, Zimbabwe currently has an import surcharge of 15 per cent on most tariff lines. The simple (unweighted) average of the sum of these two forms of border charges is 31 per cent, with a range up to 90 per cent. If the import surcharge were eliminated without altering tariffs, the average border charge would be 17 per cent. Border charges are mildly escalatory. These currently applied tariffs and surcharges are, however, the result of the suspension of statutory tariffs with much higher rates. The Minister of Finance makes such suspensions under the authority of the Customs and Excise Act.

Zimbabwe has several programmes aimed at reducing the additional costs arising from these border charges and borne by exporters and some other enterprises. Concessions are currently applied for particular end-uses and for designated statutory bodies. The duty drawback scheme allows the rebate of all tariffs, import surcharges, and some other taxes, on imported inputs used in the manufacturing or processing of exports. The inward processing scheme allows manufacturers that have posted bond and met other conditions to import those inputs used for export purposes duty free. An export subsidy available to manufacturers was eliminated in late 1993.

A hallmark of Zimbabwe's reform is the virtual elimination of import licensing. Prior to 1990, all imports required licences. The list of imports not requiring licences was gradually enlarged. In January 1994, all goods except those on a published Negative List became importable without licence. Many textiles and clothing articles remain on the negative list, but are expected to be removed in mid-1995 concurrent with the introduction of increased tariffs on these products. Import permit requirements remain common, particularly in agriculture. Government procurement rules provide margins of preference to local producers and construction contractors.

Temporary measures

Partly because relatively few of Zimbabwe's tariffs are bound under the GATT, temporary relief has often been given in the past by making changes in applied tariffs. This ad hoc mechanism carries no assurance that any measures taken in response to requests for relief will be temporary.

Zimbabwe's anti-dumping and countervailing duty legislation has not been used and no measures are in effect. The authorities have suggested that some changes to this legislation and the supporting regulations may be necessary to conform with the Uruguay Round agreements in these areas.

Zimbabwe has no safeguards legislation. Introduction of such legislation, suitably drafted, could satisfy the perceived need for flexibility in tariff setting that underlies the recent adoption of extremely high statutory tariffs.

Sectoral policy patterns

Zimbabwe's border charges (tariffs and import surcharges) are relatively uniform. With a few exceptions, sectoral average border charges fall between 25 per cent and 40 per cent. Low border charges are found on fish products, agricultural products, fertilizer and pesticides, and agricultural machinery. Examples of product areas with particularly high border charges are beverages, textiles, and clothing.

Sectoral policies are of importance especially in agriculture, where marketing of many commodities has been under strict state controls. The liberalization of maize marketing is among the most publicized of all economic reforms. While domestic marketing reform has taken great strides, export marketing (with the important exception of tobacco) continues to be reserved for, or dominated by, state-controlled marketing boards.

Reform of the import licensing and foreign exchange regimes are expected to prove particularly beneficial for export-oriented sectors such as agriculture and mining. These sectors seem to have been among the worst affected by the previous import substitution policies.

Trade Policies and Trading Partners

Zimbabwe has made great progress in recent years toward opening its economy. This reform programme was undertaken largely autonomously. Nonetheless, measures by other countries in the multilateral context of the Uruguay Round should be a strong complement to these reforms. As Zimbabwe's reforms feed through to business, and economic operators begin looking more and more to foreign markets, they should find import barriers falling and export opportunities expanding. This will further reinforce the domestic benefits of the reform process.

TRADE POLICY REVIEW MECHANISM

ZIMBABWE

Report by the Government - Summary

The fundamental objective of Zimbabwe's trade policy is to create an open, competitive and market driven economy as a basis for sustained growth and the improvement of living conditions of the population. To achieve this objective the government has since 1990 embarked on a far-reaching economic and structural reform programme encompassing, inter alia, the following:

- fiscal monetary policy reform;
- trade liberalization;
- deregulation and removal of controls on commerce and the labour market;
- public sector reform and cost recovery programmes;
- improvement of investment climate.

The government has substantially achieved most of these tasks. For example:

- before the reform programme, price controls covered almost 60 percent of all domestic products; this figure dropped to 11 percent by the end of 1993;
- state subsidies to public enterprises amounted to Z$629 million in 1990/91; for the financial year 1993/94 this figure will be Z$250 million;
- prior to 1990, all imported goods required an import licence - no import licences were required except for a handful list of items.

Zimbabwe actively participated in the Uruguay Round trade negotiations, fully aware that the success of its reform was strongly linked to a strengthened and robust multilateral trading system. The country expects to gain from the market access opportunities resulting from the Round's successful package on agricultural reform, tariff reductions on sectors and products of interest to it as well as from a secure and stable external economic and trading environment.

The government is nonetheless aware that the Uruguay Round outcome is also a challenge particularly due to the expected erosion of preferential access to its major markets - the European Community. Furthermore, there is concern over the implication of the TRIPs Agreement on product innovation and pricing of patented products in the country.

For many decades, before and after independence in 1980, the country pursued an inward looking, import substituting and anti-export biased policy which resulted in a profoundly negative effect on economic growth, investment and employment.

The adjustment programme was intended to reverse this trend. However, in 1992 the country experienced a disastrous drought that neutralized and set back some of the substantial

progress of the reform programme - resulting in a domestic recession, increased drought related import bill and current account deficit.

Another factor that impacts on Zimbabwe's external trade performance has been the depressed market prices of certain commodities of interest to the country, for example, tobacco and mineral products such as gold, asbestos, nickel, copper and chrome ore.

The country has of late enjoyed an improvement in its balance of payments situation. A striking result of this development is the now liberalized foreign exchange regime where the market determines the demand and supply of foreign exchange.

Zimbabwe hopes that the successful conclusion of the Uruguay Round will lead to a strengthened multilateral trading system and a sustained global economic growth with positive results on its economic reform programme.

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