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TRADE POLICY REVIEW MECHANISM

Review of Zimbabwe, 1-2 December 1994

GATT Council's Evaluation

The GATT Council conducted its first review of Zimbabwe under the trade policy review mechanism (TPRM) on 1-2 December 1994. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review 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.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, 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.

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 & 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 & 1994), 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), Uruguay (1992) and Zimbabwe (1994).

CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

I. The macroeconomic and structural environment

Members of the Council congratulated Zimbabwe for its steadfast pursuit of the economic reform programme introduced in 1991 and its determination to play a full rôle in the multilateral trading system. Several members noted that greater certainty on the continuity of reforms would assist Zimbabwe in attracting investment. The uncertainty of the macroeconomic environment, in particular the rate of inflation and the government budget deficit, which had exceeded forecasts, gave rise to questions. One member asked how government revenue lost through the intended elimination of the import surcharge was to be replaced. Some members requested clarification on the legal basis and practice for direct foreign investment approval, particularly with respect to the use of local resources. Progress regarding privatization, including access for foreign investment, and efforts at industrial diversification were other issues of interest.

In reply, the representative of Zimbabwe noted that legislation was being put in place to assure the irreversibility of reform. Inflation had already been sharply reduced and the Government intended to lower it further, to under 10 per cent. The budget deficit would be reduced to 5 per cent of GDP, mainly through expenditure cuts, which would come in part from the privatization of public enterprises; this would also offset revenue losses from the surcharge elimination. The recent drought had slowed, but not reversed, economic progress. Diversification of manufacturing would sustain the reform, and was being promoted by an enabling environment for investment and deregulation which should help small and medium enterprises. The new Privatization Committee was just beginning its work with the aim of commercializing and privatizing some State enterprises. Discussion of the reform process was taking place in the country, although no independent statutory review body was in existence or currently envisaged.

II. The international trade system

Council members were complimentary of Zimbabwe's trade policy reforms. They noted the virtual elimination of import licensing, the opening of the foreign exchange régime, the rationalization of the tariff structure, and the reduction in the rate of import surcharge, among other positive developments. The tariff had now become the main instrument of protection and the average rate was moderate. No variable levies or minimum import prices were applied and Zimbabwe had not used balance of payments restrictions.

There were five particular areas of concern related to import policies. First, the low level of tariff bindings, even after the Uruguay Round, contributed to uncertainty with regard to the stability of reforms. Second, members asked whether the import surcharge would be eliminated as scheduled by the end of 1995. Third, some members emphasised the need for transparency in granting import permits for agricultural goods and were concerned that this permit system operated as *de facto* non-automatic licensing. In this regard a concern was expressed about cumulative duties on imports of ready-to-eat cereals. Fourth, the negative list remained long; Zimbabwe was asked when textiles and clothing would be removed from the list and whether the tariffs that would be introduced at that time would have an equivalent trade-restricting effect. Finally, while noting that Zimbabwe currently gave m.f.n. treatment to imports from all countries, some members expressed concern that the government

could, under law, increase tariffs by 15 percentage points on imports originating from non-GATT members.

Members encouraged Zimbabwe to continue to simplify and modernize its customs procedures, where some difficulties remained despite recent streamlining. Several members urged Zimbabwe to introduce Article XIX-type safeguards, rather than using the flexibility provided by unbound tariff rates, for import relief; in this regard, members sought clarification of the rationale for the increases in statutory tariff rates, and questions were also raised as to why Zimbabwe had never used its antidumping legislation. Noting that Zimbabwe had not signed most Tokyo Round codes, members asked how it would apply the new disciplines of the WTO single undertaking. Preferences for domestic firms in government procurement contracts were questioned; members asked whether Zimbabwe intended to adhere to the Agreement on Government Procurement. Trade distortions introduced by state marketing boards in agriculture, particularly in maize and cotton, were of concern to some members. The liberalization of domestic price controls and state subsidies was welcomed, and clarification was sought on the outlook for continued reform in these areas. Finally, some members stressed the importance of domestic control over restrictive business practices, and noted Zimbabwe's progress in creating a government commission to promote competition.

The representative of Zimbabwe recognized that tariff bindings were an important element of his country's GATT obligations. After a tariff review, which would begin early in 1995, the Government would bind more tariffs. The review would also look into the 15 percentage point additional duty that could be imposed on imports from non-GATT members - which had, until now, never been used - and would address the cumulative duties on ready-to-eat cereals. He confirmed that the target was to eliminate the 10 per cent surcharge by the end of 1995. Agricultural import permits were used to keep track of available grain stocks and for phytosanitary reasons; written answers to detailed questions would be provided later. Textiles and clothing would be withdrawn from the negative list by June 1995; tariffs on such imports would not exceed 60 per cent.

On customs procedures Zimbabwe had installed an automated system (ASYCUDA), which had considerably improved efficiency. On safeguards, the Government had raised statutory rates in late 1993 to deal with import surges. However, with the removal of import licensing and exchange restrictions, it was clear that the use of the safeguard clause might be more appropriate; similarly with respect to antidumping and countervailing measures. On the Tokyo Round codes, Zimbabwe was committed to carrying out its obligations under the WTO. Preferences on government procurement were given to encourage local participation, but they would be reviewed and Zimbabwe would consider becoming a member of the Agreement. On deregulation of marketing boards, the Government had made significant strides. A recent lowering of the cotton lint price below its market level had been necessary because the spinning industry was in crisis; however, the measure had been removed on 30 November 1994. Domestic maize marketing was fully liberalized, but the Grain Marketing Board continued to have a monopoly on exports and imports of white maize because of its strategic nature; however, with prices becoming market-based, returns to farmers would reflect the value of their output. Finally, as part of the reform programme, a Monopolies and Mergers Commission had been proposed and a bill to this effect would come before Parliament in the first half of 1995.

III. The outlook for the external environment

Several issues were raised on Zimbabwe's external trading environment. Members asked whether Zimbabwe had taken any action to assist domestic firms in taking advantage of new opportunities arising from the Uruguay Round. Diversification of export markets was encouraged. Noting the importance of regional trading relationships for Zimbabwe, members emphasised the need for such arrangements

to remain consistent with GATT principles. Zimbabwe was also asked about the renegotiation of its trade agreement with South Africa.

The representative of Zimbabwe noted that the implementation of the Uruguay Round would offer Zimbabwe opportunities for product and market diversification. Zimbabwe should gain in such sectors as agriculture and mining, where it had a competitive advantage. The reduction in margins of Lomé preferences would stimulate a search for new markets and non-traditional exports. Zimbabwe's trade agreement with South Africa was being renegotiated to simplify it, extend its coverage, and achieve freer trade. Zimbabwe was a member of COMESA and, as a result, expected its regional trade to increase over time.

Conclusions

In conclusion, the Council has been very encouraged by the determined, resolute steps taken by Zimbabwe to pursue macro-economic stabilization, reform trade policies, and assume its Uruguay Round commitments. We look forward, in particular, to a successful conclusion of the tariff review and a resultant increase in the scope of bindings, as well as a continuing reduction in the negative list. This would ensure the stability and continuity of the reforms and encourage trade and investment in the region and with the world. Zimbabwe's trading partners should support its reform by opening their markets.

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