In pursuance of the CONTRACTING PARTIES’ Decision of 12 April 1989 concerning the Trade Policies Review Mechanism (BISD 36S/403), the initial full report by the Government of Zimbabwe for the review by the Council is attached.
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A. TRADE POLICIES AND PRACTICES

(i) Trade Policy Objectives

The fundamental objective of Zimbabwe's trade policy is to create a competitive and productive economy which will allow for sustained improvement in the living conditions of the population. This entails moving away from a highly regulated economy to one where market forces are allowed to play a more decisive rôle, while concurrently taking steps to alleviate any transitional social hardships which may arise from this transition.

In order to achieve these objectives the Government introduced "A Framework for Economic Reform (1991-1995)" in January 1991. The reforms themselves target macroeconomic and financial policy, international trade and foreign investment, price controls and public sector enterprises. Specifically targeted for adjustment are the following areas:

- Fiscal Policy: reduction of the budget deficit to 5 per cent of GDP by FY 94/95.
- Public Enterprises (PEs): progressive reduction of direct and indirect transfers from Government to PEs.
- Trade Liberalization: phased process of trade liberalization to move away from foreign exchange allocation system to a market based system by 1995.
- Investment Approvals: streamline procedures and review criteria for project approval.
- Domestic Deregulation: decontrol prices and deregulate labour markets.

Since the Economic Structural Adjustment Programme (ESAP) was begun in 1991 considerable progress has been achieved in attaining some of the stated objectives.

There has been substantial decontrol of prices by Government under ESAP. Before ESAP, nearly 60 per cent of domestic products were subject to price controls; however, by the end of 1993 this share had declined to a mere 11 per cent.

Budgetary support for Public Enterprises (PEs) by way of direct subsidies has also been substantially reduced, from ZS629 million in FY 1990/91 to ZS250 million in 1993/94.

With effect from 1 January 1994 all goods with the exception of a small number of items listed on the Negative List were placed on the Open General Import Licence (OGIL). Prior to ESAP, all imports required an import licence.

It is anticipated that the liberalization measures undertaken so far will contribute to the enhanced competitiveness and productivity of the economy as well as lead to an improvement in the allocation of productive resources in the economy.

(ii) Description of the Import and Export System

Prior to ESAP all imports required an import licence issued by the Ministry of Industry and Commerce. Global foreign exchange allocations were made by an Interministerial Committee, whilst exchange allocations and import licences were made to individual users by the Ministry of Industry
and Commerce. With effect from 1 January 1994 all foreign exchange requirements except fuel, Government debt service, payments covered by forward exchange contract with the Reserve Bank of Zimbabwe (RBZ) and central government imports have been sourced from the market. On that same date all goods, with the exception of a small number listed on the Negative List, were placed on OGIL.

However, all importers are required to register with the RBZ in order to obtain a Customs Assignment number from the Department of Customs and Excise. This registration requirement is purely for data collection purposes. Imports are levied a surcharge along with customs duties. The customs duties themselves are fairly moderate, reasonably balanced and largely ad valorem.

The Government prohibits importation of certain products under Section 42 and 43 of the Customs and Excise Act. These products include noxious or injurious chemical products as well as apparatus used for the production of alcohol.

Import permits for certain agricultural products, e.g. fruits, grain, sugar, tobacco and vegetables, are required. These are issued by the Ministry of Lands, Agriculture and Water Development. Imports from the PTA region are subject to a preferential tariff and surcharge, whilst those from Botswana and Namibia, subject to satisfying the rule of origin, enter duty free. Those from South Africa also enter under specified preferential margins.

Quotas, variables levies, minimum imports prices, anti-dumping and countervailing duties and safeguards have not been used. The duty-drawback and inward processing schemes exist to reduce the burden of import taxes on exporters. The duty-drawback scheme allows the rebate of all tariffs, import surcharges and import taxes paid on imported inputs used in the manufacturing or processing of exports, whilst the latter scheme allows exporters to import without payment of duty those inputs destined for use in the manufacture or processing of exports.

**EXPORT SYSTEM**

All Zimbabwean exporters must register with the national trade development agency ZIMTRADE, which imposes a 0.1 per cent levy on all imports and exports. No other export taxes are applied nor export subsidies granted.

Export licences are required for many mineral products, with the export of certain agricultural products requiring export permits. Parliament has approved a bill authorizing the setting up of export processing zones.

Zimbabwe operates an Export Credit Reinsurance Scheme which was established by the Export Credit Reinsurance Act, No. 43 of 1965. Participation in the scheme is open to all exporters and the risks covered include War, Civil War, Hostilities, Revolution, Insurrection, Boycott, Strikes or other Disturbances outside Zimbabwe, and the operation of any law or regulation which has the effect of preventing either the delivery of goods to a foreign buyer or the transfer of payment for such goods to Zimbabwe.

The scheme is administered on behalf of the Government by Credit Insurance Zimbabwe Limited (Credsure), a limited liability company established in 1965 for that purpose simultaneously with the promulgation of the Export Credit Reinsurance Act. Credsure is a private sector company and the shareholders comprise insurance and reinsurance companies and banks, some of whom are government owned.
In addition to administering the scheme for the Government, Credsure underwrites commercial risks for its own account and these include Insolvency, Protracted Default and Repudiation.

Although administered by Credsure, the scheme is under the overall supervision of the Export Credit Reinsurance Committee (ECRC) which comprises representatives of the Ministry of Industry and Commerce, the Ministry of Finance, Economic Planning and Development and the Reserve Bank of Zimbabwe under the chairmanship of the Ministry of Industry and Commerce. Meetings of the ECRC are attended by a representative of Credsure as technical advisor.

Claims arising under the scheme are paid out of the Export Credit Reinsurance Fund (ECRF) established for that purpose in terms of the Act.

Premium rates are determined in relation to the risk period, the country of destination and the payment.

(iii) The Trade Policy Framework

(a) Domestic Laws and Regulations Governing the Application of Trade Policies

Zimbabwe’s Customs and Excise Act sets the trade policy framework by authorizing the duties to be applied and surcharges to be levied. The statutory customs duties are enacted by Parliament. These rates form an upper limit as the Minister of Finance may under Sections 101 and 216 of the Act, reduce the customs duty and surcharge below their statutory levels. Most of the currently applied customs duties are in fact the result of such duty suspensions.

Tariff legislation is administered by the Ministry of Finance and implemented by the Department of Customs and Excise, which falls under the same Ministry.

The Industrial Tariff Committee (ITC), chaired by the Ministry of Industry and Commerce, in addition to processing tariff protection application and relief from tariffs on imported inputs also recommends to the Ministry of Finance the structure and type of applied tariffs on specific groups of products.

At the end of 1993 the Minister of Finance raised a number of statutory rates at short notice, some to 100 per cent. The applied rates remain unchanged. Currently, the ITC is reviewing Zimbabwe’s tariff structure with the aim of reducing nominal and effective rates of protection and their dispersion across sectors. The Government, in line with its reform programme, intends to lower customs duties from an average of about 17 per cent to 14 per cent with intermediate, raw materials and capital goods being assessed duties of 15 per cent, 10 per cent and 10 per cent, respectively. The rates on imports of final consumer goods will be in the range of 20 per cent to 30 per cent.

The Customs and Excise (General) Regulations 1992 describes the various procedures to be followed and are meant to guide officers in the field as well as educate members of the public on various customs formalities.

(b) Summary Description of the Process of Trade Policy Formulation

Zimbabwe’s customs duties and import surcharges are authorized under the Customs and Excise Act. Their rates are set in schedules to the Act and changes in these rates require
passage through Parliament. The last major change in Zimbabwe's statutory customs duty, an increase in rates, took place in December 1994. Tariff legislation is administered by the Ministry of Finance.

Section 101 of the Act gives the Minister of Finance the authority to make regulations suspending the statutory rates set by Parliament. This action may reduce the applied rate of customs duty or surcharge to any rate that the Minister sees fit, including zero. Suspensions now apply to most of Zimbabwe's tariff lines. The Minister also has the right to change rates on his own authority, but in this instance, the change requires parliamentary ratification, usually within 60 days, if it is not to be automatically rescinded.

The Industrial Tariff Committee plays a strong advisory rôle to the Minister of Finance on the setting of tariff and import surcharge rates and the granting of exemptions. The Committee, which includes membership from the Reserve of Zimbabwe, the Ministry of Finance, the Ministry of Industry and Commerce and the Department of Customs, recommends types of duties and rates of duty. In some cases, its recommendations may be for company-specific duties or for duties on a certificate basis rather than for all users. The Committee hears requests by import-competing firms for increases in protection and requests by users of imported inputs for relief from the additional input costs they face because of customs duties and surcharges.

Policy issues are subject to consultations between Government and organized interest groups. An Interministerial Committee - the Trade and Economic Relations Committee - comprised of all the economic Ministries and that of Foreign Affairs and chaired by the Ministry of Industry and Commerce recommends policy proposals to Cabinet for approval. Where legislation is involved, the individual economic Ministry concerned initiates the Bill for presentation to Parliament.

Licences and Permits are granted by the Ministry of Industry and Commerce. Those for agricultural products are issued by the Ministry of Lands, Agriculture and Water Development. Duty-drawback and inward processing schemes are administered by the Ministry of Industry and Commerce.

(c) Bilateral, Multilateral, Regional or Preferential Trading Agreements, their Scope, Duration and Goals

Zimbabwe has concluded bilateral trade agreements of a preferential nature with Botswana, Namibia and South Africa. The agreements with Botswana and Namibia are basically the same and allow tariff- and surcharge-free access of imports to each other's markets, subject only to minimum local content requirement. The agreement with Namibia only came into effect in 1993 whilst that with Botswana dates back from 1956 and was amended in 1987.

Under the South Africa/Zimbabwe trade agreement, preferential treatment is accorded to specified items in the form of rebates on duty or free of duty. Some products are subject to seasonal restrictions whilst some products are subject to quantity or value restrictions. Zimbabwe grants preferences to South Africa on approximately 2,000 tariff lines by way of percentage tariff reductions from the MFN rate in effect. The agreement dates from 1964 and is currently being renegotiated to make it much freer.

Zimbabwe is a member of the Preferential Trade Area for Eastern and Southern African States (PTA) and has signed the succession treaty for the Common Market for Eastern and
Southern Africa (COMESA). Zimbabwe has initiated the process of ratification of the COMESA Treaty. Under the PTA, member countries extend tariff preferences to other members on a wide range of goods contained in the PTA Common List. The PTA schedule calls for eliminating tariffs on imports from members within the PTA by the year 2000.

Zimbabwe is a signatory to the Global System of Trade Preferences (GSTP). However, the volume of trade under GSTP is negligible.

Zimbabwe is a member of the ACP/EEC Agreement, commonly known as the Lomé Convention under which Zimbabwe's products enter the European Union (EU) market free of customs duties and similar charges, subject to the safeguard clause and rules or origin. This exemption does not apply generally to agricultural products covered under the Common Agriculture Policy (CAP). Zimbabwe does have preferential access to the EU market for specified quantities of its exports of beef and sugar at agreed prices specified in the relevant protocols.

Zimbabwe is an original signatory to the GATT (as Southern Rhodesia) and its membership formally dates from 11 July 1948. Zimbabwe is a member of only one of the Tokyo Round Codes, i.e. the Customs Valuation Code, and an observer to one, the Agreement on Government Procurement. Zimbabwe grants MFN treatment to all countries regardless of whether they are GATT contracting parties. After having signed the Uruguay Round Agreements in Marakesh, Zimbabwe is currently in the process of ratifying the Final Act. The following countries grant Zimbabwe GSP status: Austria, Finland, New Zealand, Norway, Sweden, Switzerland, United States, Australia, Canada and the EU. Zimbabwe is also a member and active participant in UNCTAD, the IMF, and the World Bank, as well as a member of the Common Fund for Commodities, the International Sugar Organization, the International Coffee Organization and the Inter African Coffee Organization.

(iv) The Implementation of Trade Policy

Zimbabwe currently levies an import surcharge along with customs duties. The surcharge is fairly uniform, while customs duties vary moderately. Zimbabwe’s simple average ad valorem tariff over 7,334 lines, at the 8-digit level was 17.2 per cent in 1994.

Rates range from zero to 75 per cent but over 90 per cent of ad valorem rates fall between 10 and 35 per cent. Ad valorem equivalents for 185 lines with specific or compound rates are estimated to average 30 per cent.

With effect from July 1994 the import surcharge was reduced from 15 per cent to 10 per cent. The remaining surcharge will be eliminated by the end of 1995. The Industrial Tariff Committee (ITC), chaired by the Ministry of Industry and Commerce, recommends the structure and type of applied tariffs on specific groups of products. Zimbabwe’s tariff structure is currently under review by Government with the objective of reducing nominal and effective rates of protection and their dispersion across the board.

Following the rationalization of the tariff structure in 1992, which included raising the minimum rate on unbound items to 10 per cent, Government intends over time to move toward greater uniformity in the tariff structure. In particular, customs duties are to be lowered, from an average rate of about 17 per cent to 14 per cent, with rates on imports of final consumer goods in the range of 20 to 30 per cent, and intermediate goods at 10 per cent.
Zimbabwe has applied the Harmonized System (HS) since 1 January 1988. The tariff has 7,519 lines at the 8 digit H.S. level. Almost 98 per cent of tariff are applied on an ad valorem basis. Non ad valorem duties apply, inter alia, to some imports of dairy products vegetables beer wine and liquor, manufactured tobacco, petroleum products and fertilizers. Import surcharges are levied ad valorem.

Zimbabwe has several mechanisms under which surcharges on government imports can be partially or fully suspended. These may be notified in Customs and Excise suspension regulations issued by the Minister of Finance or through regulations pertaining to particular government programmes.

End-use concession can partially or fully exempt imported inputs and specific capital goods from border charges.

Four statutory bodies are eligible for complete suspension of tariffs on goods imported under specified tariff headings in HS Chapters 76,82,84,85 and 86 (covering aluminium, base metal tools and implements, mechanical and electrical items and railway equipment). Ten statutory bodies qualify for complete suspension of surcharges on imports of any goods in HS Chapters 84 and 85 (for mechanical and electrical machinery) for which the tariff is either zero or wholly suspended. Eligible goods include certain machinery, mechanical appliances and electronics. Five of these statutory bodies plus the Reserve Bank of Zimbabwe qualify for complete suspension of the import surcharge on certain additional items.

The import surcharge can be wholly suspended on imports of capital goods for use in new projects. Since the beginning of 1992, capital goods imported for use in projects registered or approved by the Zimbabwe Investment Centre (ZIC) may receive surcharge and import tax exemptions. This provision extends to capital goods used in projects not recognized by the ZIC if application is made, and approved, through the ZIC. The approval process for unrecognized projects was simplified and shifted to the Department of Taxes, which determines whether the goods qualify as capital goods.

In addition to the above, Government also assists exporters through the Duty Draw Back and Inward Processing schemes. The duty drawback scheme allows the rebate of all tariffs, import surcharges and import taxes paid on imported inputs used in the manufacturing or processing of exports, provided that the relevant products are exported within two years of the payment of duty. The value of rebates under Zimbabwe's drawback scheme was some Z$80 million through the first nine months of fiscal year 1993/94. During FYs 1990/91 to 1992/93 the value of rebates was Z$27 million, Z$53 million and Z$90 million respectively. These rebates are equal to some 3 to 5 per cent of the value of tariff and import surcharges collected.

**IMPORT LICENSING**

Until 1994, foreign currency was allocated to importers by the Reserve Bank of Zimbabwe. Global foreign exchange allocations were made by an Inter-ministerial Committee, chaired by the Minister of Finance, and exchange allocations and import licences were made to individual users by the Ministry of Industry and Commerce. Before the start of the Economic Structural Adjustment Programme in 1990, all imports required an import licence.

The licensing system was liberalized, beginning in January 1991, by placing some items on Open General Import Licence (OGIL), a facility that allowed importers to bypass the system of foreign exchange rationing. Initially, some 6 per cent of imports, by value, were on unrestricted OGIL, while another 14 per cent qualified under OGIL for particular end-users. Importers used foreign currency retained under an Export Retention Scheme (ERS), introduced in 1989, to purchase OGIL imports.
The OGIL was slowly expanded and, by the end of 1993, one third of imports were under open licence, while one-half of imports were made under the ERS. The retention rate under the ERS was slowly increased, from 7.5 per cent of a firm’s export earnings in 1990 to 25 per cent in June 1992, 35 per cent in January 1993 and to 50 per cent in April 1993. The scope of the ERS was also widened in early 1993, to allow partial retention of non-merchandise export receipts, and permissible uses of ERS funds were expanded to include such things as export promotion activities and the licensing of technology.

With effect from 1 January 1994, all goods, with the exception of a small number of items listed on the OGIL Negative List, were placed on Open General Import Licence. Justifications for items contained on the Negative List include protection of human and animal health and life, protection of natural resources, and protection of the domestic market. It is expected to remove textiles and clothing from the Negative List when new, higher, import tariffs on these products are introduced.

Zimbabwe and the Uruguay Round

Zimbabwe’s objective in the Uruguay Round was to ensure that the results of the negotiations were balanced and took into account the developmental needs of developing countries as well the differential and more favourable treatment provided for in Part I B(iv) of the Ministerial Declaration of the Uruguay Round. By the Round’s conclusion Zimbabwe expressed satisfaction in certain areas, concern in others, but at the same time noted that the Round presented a challenge to developing countries to expand and diversify exports to strengthen the competitiveness of their products.

During the course of the Round, Zimbabwe expressed its commitment to the multilateral system, to the strengthening of GATT rules, and to the improvement of the functioning of the GATT mechanism so long as this improvement was to the mutual benefit of the contracting parties. Rules of special and differential treatment of developing countries in many areas of negotiations were supported by Zimbabwe. It also expressed concern over the potential erosion of preferential access under the Lomé Convention and similar agreements.

Zimbabwe also welcomed improved rules in the areas of anti-dumping, customs valuation, safeguards and subsidies. However, concern was expressed over the reduction of m.f.n. tariffs by particular developed countries and the consequent reduction in the margin of preference for the exports of some products. Further concern was expressed over the Agreement on Intellectual Property Rights and its potential effects on product innovation and on pricing of patented products in developing countries. Zimbabwe thought it appropriate, nevertheless, that the Round had introduced multilateral rules to the new areas of services, intellectual property and trade-related investment measures. Overall, Zimbabwe expressed that the Uruguay Round liberalization process will, in the long run, strengthen the global trading system and benefit both the developed and developing countries.

The Uruguay Round package will lead to reductions in tariffs by developed countries on several products of key export interest to Zimbabwe. Analysis by the GATT Secretariat suggests that there will be substantial reductions of tariffs on grains, mining products, and tobacco, among other areas of interest to Zimbabwe. In addition to tariff cuts by importing countries, Zimbabwe is likely to gain from Uruguay Round provisions under which Zimbabwe’s competing exporters will reduce export subsidies on such products as grains, flowers and plants, and tobacco. The market access provisions of the Round are expected, according to Secretariat estimates, to generate annual global income gains of some US$235 billion, and increased world exports of some three-quarters of a trillion dollars, upon full implementation of the Round’s results. Zimbabwe’s recent market-oriented reforms will complement both these market access opportunities and the economic growth that should result from the Round,
allowing current and potential Zimbabwe exporters to expand into new markets. New rules in areas such as dispute settlement, anti-dumping and subsidies will help ensure that Zimbabwe can take full advantage of these opportunities.

B. RELEVANT BACKGROUND AGAINST WHICH THE ASSESSMENT OF TRADE POLICIES WILL BE CARRIED OUT

Since 1991, Zimbabwe has substantially liberalized its trade régime by allowing market forces to play an effective and more decisive rôle. The primary objective of these reforms is to transform the economy from one which is rigidly controlled to one which is more competitive and productive.

So far the total elimination of the highly restrictive import licensing régime has complemented reform of the foreign exchange régime and of foreign direct investment rules. The foreign exchange policy reform will result in a unified market determined foreign exchange rate and protection based only on tariffs by mid-1995.

During the reform period a more active use of monetary policy combined with increased use of indirect policy instruments will mobilize and channel savings into their most productive uses while reducing the rate of inflation. On the fiscal front, it is Government’s objective to reduce the budget deficit mainly through containment of recurrent expenditure to 5 per cent of GDP by FY 94/95. However, the negative effects of the severe drought of 1992 have resulted in an abrupt contraction of the economy, with real GDP down by 8 per cent in 1992 and inflation shooting up to 42 per cent. Nevertheless, the reform programme has been sustained, although some measures will be delayed.

The Government introduced corporate Foreign Currency Accounts (FCA) with effect from 1 January 1994, allowing firms to maintain their own supplies of foreign currency and facilitating the operations of the dual rate régime. Individual Foreign Currency Denominated Accounts were introduced in June 1993. Exporters could retain 60 per cent of their earnings from the sale of goods and services in their corporate FCA and were required to sell the other 40 per cent to the Reserve Bank of Zimbabwe at the official exchange rate. Other foreign exchange inflows, such as investment inflows and capital transfers, could be wholly deposited into FCAs. These funds were then used to pay for any eligible current account transaction, including the import of goods and payments for invisibles. If not used within 90 days of receipt, funds deposited in FCAs were sold on the market. Marketing boards and parastatals could not maintain FCAs, and funds that would otherwise be placed in an FCA were sold directly on to the market. Individuals were not allowed to purchase foreign currency from holders of FCAs or from the market in order to open individual accounts.

(i) The External Economic Environment

Zimbabwe exports reflect the diversity of the Zimbabwean economy, with manufacturing accounting for about 40 per cent of total exports and agriculture and mining contributing about 35 per cent and 25 per cent respectively. The country’s major trading partners are the UK, Germany, South Africa, Japan and the United States. Despite this diversity, the fact that the policy environment during much of the past thirty years has been characterized by an anti-export bias, has meant that the share of the export sector in GDP has remained relatively flat at about 30 per cent. Until very recently
the Government had to rely upon a stringent foreign exchange allocation system to ensure balance of payments viability. As a result, while large scale external imbalances were largely avoided, private investment remained depressed due, in part, to the lack of essential imported raw materials and imported goods.

With the advent of the adjustment programme in 1991, the Government has been attempting to correct the anti-export bias and substantial exchanges have been made to the exchange and trade régime. These changes in policy have resulted in improving the access of the private sector to scarce foreign exchange and there are early indications of a modest supply response on the non-traditional export front. The drought of 1992 neutralized the beneficial effects of the improved policy environment and the export of goods declined from about US$1.8 billion in 1991 to about US$1.5 billion in 1992, a decline of over 15 per cent in normal terms. While the drought induced domestic recession reduced significantly the demand for imports, drought related imports in 1992 amounted to approximately US$400 million, as a result of which the current account deficit increased markedly from US$547 million in 1991 to US$842 million in 1992, or about 15 per cent of GDP.

The 1993 overall value of merchandise exports was only marginally higher than in 1992, partly as a result of the continued recession in global markets but principally on account of the deterioration in the terms of trade.

South Africa is still a major export market for Zimbabwean products. Africa as a whole imports almost one third of Zimbabwe’s exports, with South Africa taking a large share of this fraction, i.e. 13 per cent. On the other hand, South Africa’s exports to Zimbabwe in 1991 were 29 per cent, while other African countries accounted for 2 per cent.

The European Union imports 40 per cent of Zimbabwe's exports, while other European countries account for about 5 per cent. The United States and Japan each import 5 to 7 per cent, respectively.

In terms of imports, Zimbabwe imports 35 per cent of its requirements from Europe. The United States and Japan each account for more than 5 per cent for Zimbabwe’s imports.

(a) Developments in the terms of trade and commodity prices

Tobacco is Zimbabwe’s most important export crop. The export volume in 1993 increased by over 20 per cent from the record volume of exports in 1992 and totalled 187,000 tonnes. Almost one half of our tobacco exports are destined for Europe.

The decline in world tobacco prices during 1993, from their peak in 1991, has had a substantial impact on Zimbabwe’s export revenue. The grower prices in Zimbabwe, which stood at US$3.05 per kilogram in 1991, averaged just US$1.24 in 1993. This led the Zimbabwe Tobacco Association to target a 25 per cent reduction in production for 1994 in response to the low world prices.

Zimbabwe is a "mineral abundant" country. While over 40 different minerals are produced, approximately 85 per cent of mineral production is derived from gold, asbestos, nickel, copper, coal and chrome ore. In 1992, the formal mining sector employed about 50,000 people, contributed about 5 per cent to GDP and accounted for about 23 per cent of total export earnings. Most of the minerals are exported in their raw form or as semi-processed metals. The sector, which has a substantial amount of foreign investment, is highly diversified and efficient.
The drought-induced cuts in power supply and the rise in power tariffs resulted in mining value-added declining by about 6 per cent in 1992. Most of this decline was on account of copper and nickel. Notwithstanding this decline, the total value of mining production rose by over 30 per cent in 1992, to about Z$2.42 billion, largely as a result of currency depreciation. This trend continued in the first quarter of 1993, with the volume of mining production declining by a further 2 per cent, while the value of production rose by about 18 per cent to Z$666 million.

Although there has been some improvement in the ferrochrome market, mineral oversupply by the Commonwealth of Independent States has adversely affected the international mineral market, a problem compounded by the generally depressed levels of international demand. Mineral prices continue to remain extremely volatile in the world market. Despite these problems, there is considerable optimism within the mining sector in Zimbabwe over its medium-term prospects and the sector has continued to attract new investment. There have been fresh injections of capital in gold mining, as a result of which there has been an expansion of production in 1993. Total gold production between January and April 1993 increased by over 8 per cent, driven largely by the increase in the international price of gold and the depreciation of the Zimbabwe dollar against the US dollar. Diamond mining, platinum and coal-bed-methane are a few of the other areas which are attracting investor interest.

Asbestos accounts for 15 per cent of Zimbabwe's mineral production. In 1992 asbestos had a value of almost Z$350 million. The share of asbestos in Zimbabwe's total exports in 1991 was 3.0 per cent.

Zimbabwe imports refined petroleum products, and the National Oil Company of Zimbabwe has been charged with the importation responsibility. Fuels accounted for 12 per cent of total imports in 1991.

(b) Important trends in the balance-of-payments, reserves, debt, exchange and interest rates, and other such issues

Emerging from one of the most devastating droughts in living memory, Zimbabwe's balance of payments figures for 1993 indicate a significant recovery over 1992. Merchandise exports are forecast to increase marginally by 0.8 per cent from US$1,530.0 million in 1992 to US$1,543.0 million in 1993. This low export growth results mainly from reduced export earnings on tobacco due to excess supply on the world market and low international prices for other major export commodities, such as cotton, nickel, asbestos, copper and ferro-alloys.

Merchandise imports, including drought-related imports, were estimated to decline by US$356.0 million (20 per cent) from US$1,781.0 million in 1992 to US$1,425.0 million in 1993. Included in this decline are food imports, which amounted to US$166.4 million in 1994, compared to US$333.1 million recorded in 1992. Excluding drought-related imports, total imports declined from US$1,398.4 million in 1992 to US$1,187.6 million in 1993, a decline of 15.1 per cent.

The near stagnant export growth in 1993 is, therefore, more than offset by the decline in imports resulting in the merchandise trade account recording a surplus of US$118 million, compared to a deficit of US$250 million recorded in 1992.

The invisibles account, excluding transfers, was projected to improve significantly by US$192.6 million from a deficit of US$631.5 million in 1992 to a much lower deficit of US$438.9 million in 1993. Accounting for this improvement are lower outflows on shipment, profits and dividend remittances, education, other transport and travel. The lower shipment and other transport
outflows are commensurate with the projected reduced imports during 1993, while lower remittances of profits, dividends and travel are reflective of the depressed domestic economic activity.

The improvement in the overall balance emanates largely from the current account balance, which, excluding official transfers, was estimated to improve by US$566 million to record a lower deficit of US$276 million (5.1 per cent of GDP) in 1993. This compared with the high 1992 deficit of US$842 million (15.4 per cent of GDP). Including official transfers, the current account deficit was projected to improve from US$600 million (11 per cent of GDP) in 1992 to US$92 million (1.7 per cent of GDP) in 1993. This improvement in the current account mainly reflects the significant improvement in the trade balance due to lower than anticipated growth in imports. The lower import growth in 1993 results generally from the impact of the domestic recession, a tight monetary policy stance in order to effectively deal with the problem of spiralling inflation, and reduced drought-related imports.

(c) Balance-of-payments restrictions to 1996

Over the period 1994-96 the current account, excluding official transfers, will reflect deficits of US$346 million, US$310 million and US$196 million, per annum, respectively.

As a percentage of GDP, the current account deficit, excluding official transfers, is expected to worsen from 5.1 per cent in 1993 to 6.2 per cent in 1994. The worsening in the current account in 1994 is mainly due to the increased outflows relating to investment income (dividends and profits) and other liberalized invisible payments. In 1995 and 1996, the current account, as a percentage of GDP, should improve to 5.5 per cent and 3.2 per cent, respectively. This improvement is largely explained by projected annual growth rates in exports of 12 per cent (US$206 million) and 14.8 per cent (US$282 million) coupled with lower annual import growth rates of 6.8 per cent in 1995 and 8.2 per cent in 1996.

Export performance during the forecast period should benefit from a more liberal import and foreign-exchange régime, improved export incentives, pre- and post-shipment financing, the inward-processing scheme, the removal of import taxes on capital goods and access to offshore financing. The free-trading of the ERS and its extension to cover invisibles, such as business travel, marketing expenses and dividends, will result in a more efficient and transparent ERS market, which will further provide incentives to exporters and investors. In addition, export competitiveness will continue to be maintained through appropriate exchange rate managements.

In a bid to further liberalize the economy, in June 1993 the Government introduced individual Foreign Currency Accounts (FCAs), and allowed individuals to freely open foreign accounts with local banks and transact in foreign exchange at a market-determined exchange rate. So far, inflows into individual FCAs have been very encouraging, with about US$11.6 million already deposited with local banks. The liberalization of the Zimbabwe Stock Exchange has also rejuvenated the Stock Exchange with substantial increases in the volume of shares bought by foreign investors. By end-September foreigners had invested US$6.7 million in the Stock Exchange.

Merchandise imports are thus expected to increase by 9.8 per cent in 1994 to US$1,564 million, by 6.8 per cent in 1995 to US$1,670 million and by 8.2 per cent in 1996 to US$1,807 million. This increase in imports over the forecast period is in line with targeted GDP growth rates, which will average 5 per cent over the three-year period.
The anticipated increase in net foreign investment is mainly due to the deregulation of investment and a liberalized economy and better investment incentives, such as enhanced dividend remittances. Substantial net outlaws are also envisaged in 1994 as official short-term capital facilities, such as tobacco, minerals and horticultural facilities are repaid. This envisaged amortization of short-term debt is considered desirable as well as prudent in order to make debt-servicing manageable by reducing short-term debt and emphasizing medium- to long-term debt. Short-term standby credit by the Reserve Bank of Zimbabwe is projected at a reduced level of US$112 million in 1994 and is expected to be fully repaid by 1995.

For 1994 and 1995 the overall balance-of-payments position is projected to record a deficit of US$162 million and US$70 million, while a surplus of US$55 million is expected in 1996. Official gross reserves are projected to remain at current levels of 4 months of import cover during the forecast period.

(d) International macroeconomic situation affecting the external sector

A number of non-tariff measures by certain countries make it difficult for Zimbabwe to gain access to these markets.

The depressed world market price for certain commodities, coupled with the sluggish global economic growth, constrains Zimbabwe’s export earnings revenue capacity, critically needed for the attainment of the objectives of the Economic Structural Adjustment Programme.

The widespread international trends towards regional economic blocks, and the concomitant surge in protectionism impact negatively on Zimbabwe’s access to foreign markets.

However, Zimbabwe hopes that with the successful conclusion of the Uruguay Round the multilateral trading system will be strengthened and opened and will bring about sustained global economic growth. Zimbabwe expects recognition for the autonomous liberalization measures she has undertaken so far.