TRADE POLICY REVIEW MECHANISM

ZIMBABWE

MINUTES OF MEETING

Chairman: Dr. M. Zahran (Egypt)

I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL
II. OPENING STATEMENT BY THE REPRESENTATIVE OF ZIMBABWE
III. STATEMENT BY THE FIRST DISCUSSANT
IV. STATEMENT BY THE SECOND DISCUSSANT
V. STATEMENTS BY MEMBERS OF THE COUNCIL
VI. REPLIES BY THE REPRESENTATIVE OF ZIMBABWE AND ADDITIONAL COMMENTS
VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL
I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman introduced the first review of Zimbabwe's trade policies and practices. He welcomed the Zimbabwean delegation headed by Mr. K. Nkomani, Permanent Secretary, Ministry of Industry and Commerce, members of the Council, and the discussants, Mr. A. Lecheheb and Miss A. Stoddart. As usual, the discussants would speak in their personal capacities.

2. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of Zimbabwe (C/RM/G/53) and the other by the GATT Secretariat (C/RM/S/53). He recalled the procedures for conducting reviews, introduced in May 1993 (document L/7208).

3. Australia, the European Union and the United States had given advance notice in writing of points they wished to raise during the meeting.
II. OPENING STATEMENT BY THE REPRESENTATIVE OF ZIMBABWE

4. Mr. Chairman, I would like to thank you, and other delegations present here, for the warm welcome extended to my delegation on this very important occasion where my country's trade policies are being reviewed for the first time. I would also like to place on record my Government's appreciation of the rôle that the Trade Policy Review Mechanism plays, particularly in helping us to analyze and re-examine our domestic economic environment.

5. May I also add that the scrutiny of my country's trade policies is taking place at an opportune time for us, firstly because Zimbabwe is entering the fifth year of its structural adjustment programme and secondly because all of us are about to witness the beginning of a new era in global economic trade relations with the coming into force of the World Trade Organization (WTO).

6. Mr. Chairman, in order to appreciate Zimbabwe's trade policies and practices it is necessary to make reference to the country's far reaching Economic Structural Adjustment Programme (ESAP), launched in 1990. Before independence in 1980 Zimbabwe's economic policy was inward looking and characterized by extensive state intervention in almost every sector of the economy. There was heavy reliance on import substitution to cushion the negative effects of sanctions that had been imposed by the international community immediately after the Unilateral Declaration of Independence in 1965.

7. Although after independence some economic policy changes were made, it became very clear by the late 1980s that a bold and drastic policy change was needed to address the problems of low levels of investment, rising unemployment, declining exports and population growth which was outstripping GDP growth. To reverse this trend, the Government adopted a comprehensive Economic Structural Adjustment Programme (ESAP) whose objective was to create an open, competitive and market driven economy. The following major areas were specifically targeted for reform: trade policy, fiscal and monetary policy, and deregulation.

8. Mr. Chairman, let me begin with trade policy, where Government has committed itself to a phased process of trade liberalization through the removal of import controls and licensing, tariff reform and a supportive exchange rate policy.

9. Before the reform programme, all imports into the country required an import licence and were subject to foreign exchange rationing. With the launching of the programme there was a gradual move away from the import licensing and the foreign exchange allocation system to an open system of import sourcing. By 1 January 1994, all goods with the exception of a small number of items listed on the Negative List were imported without the need for a licence. By that same date, the system of allocating foreign exchange also ceased. With effect from 1 July 1994 all current account transactions are now being financed through the open market. Both the exchange rate as well as the demand and supply of foreign exchange is consequently market determined. However, to maintain stability the Reserve Bank of Zimbabwe may intervene through measures such as open market operations and the reserve ratio.

10. The tariff structure is currently undergoing rationalization with the objective of achieving greater uniformity and harmonization whilst with effect from July 1994 the import surcharge has been further reduced from 15 per cent to 10 per cent and should be eliminated by the end of 1995.

11. In the fiscal area, the Government has committed itself to reduce the budget deficit to 5 per cent of GDP by fiscal year 1994/95. However, experience so far indicates that it will be difficult to achieve this target. For example, in fiscal year 1992/93 the budget deficit was 11.2 per cent of GDP. This
was caused by a severe drought which necessitated heavy public expenditure in food imports. In fiscal year 1993/94 the budgeted deficit was 5.4 per cent but the out-turn was 7.9 per cent of GDP. It is clear therefore that Government has to take stringent measures to ensure that the 5 per cent target for 1994/95 is met. Among the actions that the Government is taking are: the commercialization of public enterprises, reduction of the size of the civil service and disposal of some of its assets.

12. It is recognized that inflation constitutes the biggest potential setback on the path to economic recovery and growth. In 1992, for example, inflation soared to 50 per cent but eased to some extent by January 1993 to 45 per cent and dropped markedly by December 1993 to 18.6 per cent. This trend was, however, reversed by May 1994 when the rate rose to 25 per cent. The current rate is approximately 22 per cent. It is the Government’s intention to bring down the rate of inflation to single digit figures.

13. Regarding the last target for reform, deregulation, considerable progress had been made on a number of fronts. In the area of investment approvals a single window clearance agency known as the Zimbabwe Investment Centre (ZIC) has been established. The Centre has streamlined the procedures and criteria for project approvals and drastically reduced the project approval time to a maximum of 45 days.

14. Before the reform programme price controls were a common feature of the economy, but today an insignificant number of items are subject to price control. On the labour front, direct intervention in wage setting and dispute settlement has been replaced by free collective bargaining.

15. Mr. Chairman, although the reform programme has achieved a substantial number of its objectives, it is important to note that the poor and the vulnerable have been negatively affected by the adjustment process through changes in the provision of social services, particularly in the health and education sectors. Considerable progress had been achieved in these sectors since independence. In order to alleviate these hardships, the Government has, in parallel with the implementation of the reform programme, established a Social Dimension Fund Programme that provides appropriate compensation mechanisms for the affected groups.

16. A major setback to the reform process was the devastating drought of 1992 - the worst drought the country and the whole region ever experienced in their history. As a result, the two major productive sectors of our economy, agriculture and manufacturing, saw their outputs declining in real terms by 35 per cent and 30 per cent respectively, during that year. As I indicated earlier, inflation rose to its highest during the same year. In short, 1992 was a recession year for the country - with all the adverse implications for the reform targets and performance. However, with the return of normal rains since last year and hopefully this year, the country should get back on the recovery path.

17. The Government is resolutely pushing forward with the reform programme. A complementary external environment to our reforms was created by the parallel process of the Uruguay Round trade negotiations. My Government contributed to the multilateral trade negotiations by undertaking commitments in such areas as trade in goods and services, intellectual property rights and investment disciplines. The country’s domestic trade legislation and environment will be reformed and adapted to reflect the requirements emanating from the Uruguay Round result. We therefore attach importance to the entry into force of the new World Trade Organization which will guarantee a firm foundation for an open, predictable and secure multilateral trading system. Zimbabwe is in this regard finalizing its ratification of the WTO Agreement so that we can become original members and thus ensuring that our economy continues its process of integration into the global economy.
18. In conclusion, I would like to express my sincere gratitude to the GATT Secretariat for their valuable and detailed report on Zimbabwe's trade policy, as well as for their assistance rendered to my Government in preparing its report. I wish also to thank Mr. Abdelkader Lecheheb of Morocco and Miss Anne Stoddart of the United Kingdom for accepting to serve as discussants on my country's trade policy review.
II. STATEMENT BY THE FIRST DISCUSSANT

19. The first discussant (Mr. Lecheheb) viewed Zimbabwe's willingness to take part in the Trade Policy Review exercise as underlining Africa's contribution to the establishment of a multilateral trading system based, inter alia, on transparency. He noted that, from the standpoint of the GATT, Zimbabwe was both an old and a new country: old, since it was one of the original signatories, and new because it became independent only in 1980. This helped to understand Zimbabwe's economic policy and, in particular, the reforms implemented since 1991.

20. At independence, Zimbabwe had inherited a highly regulated economy with a very protected trade régime. These policies had been implemented since the 1960s and were in response to economic sanctions decreed by the United Nations following the minority government's 1965 Unilateral Declaration of Independence. Control extended to all economic activities, such as foreign trade, prices, foreign exchange, and investment. The economy was insular and nearly completely self-sufficient.

21. After independence, restrictive policies persisted and were justified, in the words of Minister Chidzero, "until we had the economy under control." But the continuation of such policies over a decade had disastrous results: the government deficit exploded, investment fell to a level of 13 per cent, and real per capita income stagnated. A change in direction became inevitable.

22. The Framework for Economic Reform (1991/95) was introduced in 1991 to revitalize the economy by reducing the fiscal deficit, decreasing state aid to public enterprises, liberalizing foreign trade, reducing investment distortions, eliminating price controls and deregulating the labour market. This programme has undoubtedly had important results in areas such as price controls, aid to public enterprises, import licensing, and the import surcharge. Investment, to some extent, had been facilitated, although there was no clear justification for discriminating (with regard to the repatriation of dividends) against investments made prior to 1993.

23. Against the progress of the programme, some of its limitations needed also to be mentioned. First, the budget deficit increased from 7.6 per cent of GDP in 1991-92 to 11.2 per cent in 1992-93. While this could be largely explained by the drought, the First Merchant Bank of Zimbabwe attributed part of the increase to the Government itself, which reportedly recruited 10,000 civil servants although it had announced a reduction in the number of state officials. Second, inflation remained too high, despite having been brought down to 28 per cent from as high as 48 per cent. This inflation limited investment, affected Zimbabwe's external competitiveness, and eroded the purchasing power of wage earners.

24. The discussant offered suggestions for Zimbabwe in four areas. First, the Zimbabwe economy had responded positively to the economic reforms, so the achievements of the reform programme should be consolidated and then further reforms pursued. Second, Zimbabwe should stress the permanent and irreversible nature of the reforms implemented so far, so as to improve certainty and predictability for both domestic and foreign firms. Statements such as that by Minister Chidzero that "the ESAP is the only way forward for the economy of Zimbabwe" helped in this manner. Third, because of the importance of agriculture to Zimbabwe the authorities should keep in mind appropriate policies in cases of drought. Finally, reform seemed to have been slow in sectors where Zimbabwe had a comparative advantage; the pace of reform in various sectors might need to be reconsidered.
25. With regard to trade policy itself, the near-elimination of import licences was very important, particularly since all imports required licences until 1990. The result was a very positive situation in which tariffs were the main remaining protectionist device; further, the authorities had confirmed that the 10 per cent surcharge would be eliminated in 1995. The main concern was the lack of tariff bindings, which accentuated the uncertainty of the Zimbabwe market and could constitute an obstacle to investment, to which Zimbabwe had given the key rôle in economic growth.
IV. STATEMENT BY THE SECOND DISCUSSANT

26. The second discussant (Miss Stoddart) welcomed the move to tariff-based protection in Zimbabwe and noted that tariff rates in effect were moderate, particularly when compared to other countries of a similar per capita income level. This was a dramatic change compared to the situation before 1990, when import licences were required for all imports.

27. Statutory tariff rates, however, greatly exceeded the applied rates, indicating that it remained possible to raise tariffs quickly. This situation was compounded by the relative lack of tariff bindings. Thus, there was only limited legal certainty underpinning the preset tariff régime, and the few new industrial product tariff bindings as a result of the Uruguay Round will not lead to a substantial improvement. She asked whether the Industrial Tariff Committee might consider the case for increasing the predictability of the tariff régime by increasing bindings.

28. Textiles and clothing products were to be removed from the Negative List and thus would become importable without licence. It would be helpful to learn when this important change would be made and to what extent tariffs would be increased. Was it intended that the new tariffs would have a trade-restricting effect equivalent to the import licences? Might the new tariffs be in the range of 20 to 30 per cent, which was the general objective for final consumer goods?

29. Import permits were required on many agricultural products. It would be helpful to know the criteria for granting permits and whether these were published, as well as to have information on the time limits for the validity of the permits. The discussant asked whether the government regularly monitored production and demand, and whether the information gained in such monitoring was used in the import permit approval process.

30. While it was clear that Zimbabwe was moving toward a more market-oriented agricultural sector, some commodities remained regulated. It was not clear whether the process would culminate in a free market in all commodities or, alternatively, whether the authorities considered that continued government regulation of some commodities, such as maize and cotton, was necessary. The Cotton Marketing Board's flexibility in setting cotton prices had been temporarily removed this year, leading to a return to the policy of subsidizing the domestic spinning industry at the expense of cotton producers. The discussant asked whether cotton marketing would be returned to a market-based pricing system.

31. When imports were directly controlled it mattered little that Zimbabwe had no safeguards legislation. It was not essential, or even advisable, that a country used every instrument that GATT allowed. However, in the case of Zimbabwe it now seemed important that a safety net be established based on GATT Article XIX. This would be more in keeping with Zimbabwe's commitment to a rule-based international system than was its present reliance on raising unbound tariffs.

32. The Republic of South Africa had become an especially important trading partner for Zimbabwe, and it was understandable that the trade agreement between the two countries, which dated from 1964, might need renegotiation. According to the report by the Government of Zimbabwe, the objective of this renegotiation was to make trade between the two countries much freer. The discussant asked whether the particular aim was to extend the coverage of the agreement or the extent of the preferential treatment. She also asked whether a goal for the completion of the negotiations had been set by the countries.
V. STATEMENTS BY MEMBERS OF THE COUNCIL

33. The representative of Australia congratulated Zimbabwe on the reforms it had implemented since 1991 and pointed out several of the areas in which reforms were being made, including: the foreign exchange control system and the July 1994 unification of the exchange rate régime; simplification of the foreign direct investment approval process; an easing of the restrictions on the repatriation of dividends; the near-elimination of import licensing and the move towards making tariffs the sole mechanism of industry protection; the elimination of export subsidies; and the reform of domestic marketing of agricultural products. She commended Zimbabwe for maintaining the reforms despite the effects of serious drought and urged Zimbabwe to continue to follow the path of reform, a path crucial to attaining the economic goals that Zimbabwe had set for itself.

34. Zimbabwe's review of its tariff structure, with the aim of reducing rates of protection, was viewed as a positive development; however, noting that statutory tariff rates had been raised in order to provide flexibility in cases of import surges, she asked whether Zimbabwe had considered the use of GATT Article XIX safeguards. She also noted that Zimbabwe's anti-dumping legislation had not been used and asked whether, if unfair trade existed, Zimbabwe would make use of this legislation rather than rely on increases in the m.f.n. tariff. While Zimbabwe granted m.f.n. treatment to imports from all countries, clarification was sought of a provision in Zimbabwe law that allowed the imposition of an additional duty of 15 per cent on such countries as might be specified. The representative of Australia was also interested in the extent to which tariffs in Zimbabwe were levied for the purpose of government revenue rather than for their protective effect, and whether this varied greatly across sectors.

35. A wide range of agricultural imports was subject to import permit requirements and, although these permits were normally granted routinely, substantial imports were not allowed when they would decrease domestic prices or when domestic production was sufficient. Clarification was sought as to the criteria for disapproval of agricultural import permit requests. She asked under what circumstances licenses were available for imports of those goods that remained subject to import licensing, and when these import restrictions would be eliminated.

36. Admiration and support for Zimbabwe's programme of reform was expressed by the representative of the United States, who commended Zimbabwe particularly for the virtual elimination of the import licensing system, the reform of the foreign exchange régime, and the reform of domestic agricultural marketing. He expressed concern, however, that these reforms did not yet have a firm legal basis, and encouraged Zimbabwe to increase the number of its tariff bindings. He requested an explanation for the increase in statutory tariffs that took place near the close of the Uruguay Round. In agriculture, the use of import permits and the influence of state-controlled marketing boards over export marketing were areas of concern, as were the above-average rates of tariff on imports of ready-to-eat cereals; he asked whether there were plans to reduce tariff rates for these products. The revision of government procurement rules, which now provided a margin of preference to local producers and construction contractors, was encouraged.

37. The representative of the European Union (EU) congratulated the Government of Zimbabwe for the progress achieved under the reform programme despite the severe drought that hit the country in 1992, and encouraged Zimbabwe to consolidate the progress already made and to continue its reforms. He noted that the EU was assisting Zimbabwe in the reform process by providing financial and other forms of assistance under the framework of the Lomé Convention. Increases in tariff bindings were seen as one way of consolidating the reforms and of preventing the use of increases in statutory tariffs as an instrument to address import problems. If the Government of Zimbabwe was concerned with
the possibility of import surges, it could then consider developing safeguard legislation in line with GATT Article XIX as this was a more appropriate instrument to deal with such situations. Some macroeconomic problems remained, partly owing to the severe drought of 1992: inflation, interest rates, and the budget deficit remained high. Noting that the elimination of the import surcharge would likely reduce government revenue, he asked how the Government of Zimbabwe intended to make up for this loss of revenue.

38. The persistence of Zimbabwe's ambitious reform programme in the face of severe drought was cited by the representative of Canada as deserving of congratulations. Although import procedures had been modernized and streamlined, clearance of imports was at times slow. An increase in the coverage of tariff bindings was urged, and it was noted that tariffs and import surcharges in some sectors may have been so high as to effectively prohibit imports. He pointed out that adoption of the Uruguay Round by Zimbabwe led to many new responsibilities, particularly because Zimbabwe was a signatory to only one Tokyo Round code. While the Agreement on Government Procurement was not part of the single undertaking, Canada was interested in whether Zimbabwe intended to adhere to that Code in the future. Clarification was sought on plans to institute a commission to investigate anti-competitive practices.

39. The representative of Hong Kong commended Zimbabwe for its market-oriented reforms and noted that the near-elimination of import licensing and the continuing phase-out of the import surcharge were two particularly remarkable elements of the reform programme. The possibility that the use of domestic resources might be a criterion in considering applications for direct investment was of concern, in light of the Uruguay Round agreement on trade-related investment measures.

40. Appreciation of Zimbabwe's commitment to the multilateral system and for its recent reforms, particularly the near-elimination of import licensing, was expressed by the representative of Japan. He welcomed Zimbabwe's relatively positive attitude toward improved rules in areas such as anti-dumping, customs valuation, safeguards and subsidies. The further paring of the import licensing list and the timely elimination of the import surcharge were urged.

41. The reaffirmation of Zimbabwe's commitment to liberal economic reform was welcomed by the representative of Egypt, who referred in particular to reforms in import licensing, the import surcharge, price controls, the foreign exchange régime, and foreign direct investment rules. It was noted that in 1991 some 29 per cent of Zimbabwe's merchandise imports originated in South Africa, while other African countries were the source of 2 per cent of imports. He asked whether the Government of Zimbabwe intended to further diversify its external trade relations with other African countries. He was also interested in whether any reconciliation was necessary between Zimbabwe's Uruguay Round commitments and the Abuja treaty, which was scheduled to lead to an African Common Market and the African Economic Community.

42. The representative of Côte d'Ivoire expressed support for the economic reforms Zimbabwe had undertaken and noted that during the Uruguay Round Zimbabwe had been active in revising the Customs Valuation Code. She asked what steps Zimbabwe had been taking to conform with the new provisions of that Code.
43. The representative of Norway, on behalf of the Nordic countries, noted that the Nordic countries have long followed the political and economic developments in Zimbabwe and that they supported Zimbabwe’s dedication to economic reform. He expressed regret that Zimbabwe, because of uncontrollable circumstances, had been unable to harvest immediate and convincing results from its reforms. Noting the challenges that resulted from the current general economic environment, he encouraged Zimbabwe to maintain the reform process and urged it to show a multilateral commitment on its trade policy by binding a larger share of its tariff lines. Timely elimination of the import surcharge was also urged.
VI. REPLIES BY THE REPRESENTATIVE OF ZIMBABWE AND ADDITIONAL COMMENTS

44. Replies by the representative of Zimbabwe were divided into three broad themes: the macroeconomic and structural environment; Zimbabwe’s international trade system; and the external economic environment faced by Zimbabwe. Following replies under each area, the Chairman opened the floor to Council members for further comments and questions.

1) Macroeconomic and Structural Environment

Replies by the representative of Zimbabwe

45. The representative of Zimbabwe reaffirmed his Government's commitment to the continuation of the reform programme. Reversion to the old system of controls and import licensing was simply not a viable option. Appropriate legislation was being put in place to assure the irreversibility of reforms.

46. Inflation had peaked at 50 per cent in 1992, and had since been reduced to 22 per cent. This figure was still considered excessive, and the Government of Zimbabwe believed that high inflation impacted negatively on investment and growth. It remained the Government’s intention to reduce inflation to single digit figures. The Government also aimed to achieve the 5 per cent target for the government deficit by 1995, as envisaged in the reform programme. This would be accomplished through overall improved management of government finances, a reduction in the size of the civil service, and the disposal of public assets to raise revenue.

47. A major part of the Government’s expenditure were subsidies to public enterprises. It was policy to commercialize and in some cases privatize these enterprises. A Cabinet Committee on Commercialization and Privatization had recently been established to oversee this process. It was expected that these measures would lead to a reduction in government expenditures, resulting in a corresponding reduction in the need for additional revenue. Revenue losses arising from the removal of the surcharge should be offset in this manner.

48. The primary sectors of agriculture and mining did not have the flexibility for growth and employment required to sustain the reform programme. This suggested that the diversification of the economic base through the development of the manufacturing sector should be pursued. Special emphasis was being placed by the Government on the promotion and growth of small- and medium-scale enterprises. It was believed that this would provide an enabling domestic environment for foreign investment and lead to the more efficient allocation of local resources, entrepreneurship and human skills. A Deregulation Committee had been established and was charged with identifying and phasing out those existing rules and regulations that impeded the growth of small- and medium-scale enterprises.

Additional comments

49. The first discussant welcomed the information that legislation was being put into place to assure the irreversibility of Zimbabwe’s reforms. He sought clarification as to which reform measures had been deferred because of the drought. He asked about the terms of reference of the Committee on Commercialization and Privatization and whether the Government had determined which enterprises would be privatized.
50. The representative of Argentina, unable to intervene earlier, mentioned many of the areas in which reforms had been implemented in Zimbabwe and stated that reforms would likely strengthen Zimbabwean exports. Two questions were asked. First, how was revenue lost through the elimination of the import surcharge to be replaced? And second, were import permits in agriculture restrictive and, if so, was this policy compatible with the fact that the agriculture sector seemed to be internationally competitive and to have the ability to expand?

51. The representative of Madagascar, unable to be present earlier, congratulated Zimbabwe for its economic reforms and for its positive participation in the Uruguay Round.

52. The representative of Australia asked whether much public debate had preceded the adoption of Zimbabwe’s reform programme in 1990-1991, and whether an independent statutory body existed in Zimbabwe that would analyze and review the reform process, taking into account comments from all sectors of the economy and from consumers.

53. Further concern over the progress of privatization was expressed by the representative of the EU, particularly with regard to the Grain Marketing Board and the Zimbabwe Steel Company.

54. The representative of Nigeria, not able to be present earlier, complimented Zimbabwe for its positive economic reforms and stated that his Government was watching the process of reform in Zimbabwe very closely because of similar reforms being undertaken in Nigeria. He asked whether the privatization process in Zimbabwe would be fully open to foreign investors, particularly those in Africa.

55. The representative of India, not able to be present earlier, commented on the importance of the agriculture sector in Zimbabwe and stated that the Government of Zimbabwe should not shift its attention away from that sector.

56. The representative of Zimbabwe responded that budget deficit reduction had been adversely affected by the drought. The terms of reference for the Committee on Commercialization and Privatization had not yet been established, but the broad objective was to commercialize enterprises, and to privatize them where it was felt to be necessary. Substantial debate had taken place within government and with the private sector prior to and during the reform process. No statutory body with review authority existed, but the Government consulted closely with the private sector. The dual role of the Grain Marketing Board (GMB), with a commercial role and a mandated food security role, was mentioned and it was noted that the level of stockholding requirements placed by the Government on the GMB were being examined. The Zimbabwe Steel Company was being prepared for privatization. This and other privatization exercises were expected to be open to foreign investors.

(2) Trade System

Replies by the representative of Zimbabwe

57. The binding of tariffs was an important element of Zimbabwe’s obligations under the General Agreement. It was through bindings that contracting parties could be assured of the permanence of decisions taken on tariff levels and this assurance was important for investors. Because of the nature of the Zimbabwe reform programme it was difficult to take decisions on tariff bindings, but following a review and the subsequent restructuring of tariffs, the Government was expected to bind more tariffs.
58. Zimbabwe granted m.f.n. treatment to GATT and non-GATT members alike. This was done for administrative simplicity. The 15 per cent additional duty that could be imposed on goods from non-GATT members predated independence and had not been invoked since 1980. Nevertheless, this issue would be examined in the context of the overall tariff review. The Government firmly intended to eliminate the 10 per cent import surcharge by the end of 1995.

59. There were two main reasons why agricultural import permits were required. First, the Ministry of Agriculture monitored available grain stocks in the country, particularly maize and wheat, for food security purposes. Second, phytosanitary considerations on products such as beef, dairy and plants and live animals were important. Permits were normally issued within a day. Data on the number of permits issued were not immediately available but could be obtained from the Ministry of Agriculture. A response would be furnished later to the question regarding instances where permits might not be granted. Duties and surcharges on imports of ready-to-eat cereals would be addressed in the overall context of the tariff review.

60. Textiles and clothing articles would be withdrawn from the Negative List by June 1995. The exact levels of duty were still being determined, but were not expected to exceed 60 per cent. The Negative List had recently been shortened by removing pearls, precious and semi-precious stones, and aerated beverages.

61. Customs procedures were continuously under review with the objective of increasing efficiency in the processing of both imports and exports. The Department of Customs and Excise had installed an Automated System of Customs Data (ASYCUDA), and this had already improved efficiency considerably. Significant improvements had been made to the duty drawback and inward processing schemes; payments on duty drawback were now processed within 14 days of the submission of an application.

62. In anticipation of the review of the tariff structure, the Government felt it needed flexibility to adjust tariffs in response to import surges. This led to the December 1993 increase in statutory tariffs. The Government agreed that this was not the only way to deal with such developments, but felt it should be noted that applicable rates were much lower than statutory rates. With the existence at the time of import licensing and foreign exchange restrictions, use of the GATT safeguard provision was not considered. Following the removal of the licensing system it was clear that the use of the safeguard clause would now be more appropriate. Similarly, there had been no necessity to seek recourse to anti-dumping and countervailing measures. The Uruguay Round results required changes in domestic legislation to reflect the new environment. With regard to the Tokyo Round Codes, Zimbabwe had committed itself under the WTO Agreement to fulfil its obligations.

63. Local businesses received government procurement preferences and its was felt this encouraged their participation in the economy. In view of the outcome of the Uruguay Round, Zimbabwe would be examining its status in this Code.

64. The Government had progressed in its reform of the agricultural marketing boards. For example, the Dairy Marketing Board had been commercialized and dairy marketing had been opened to private individuals and firms. Registered private abattoirs could now engage in the domestic marketing and the export of beef. The Cotton Marketing Board had been transformed into the Cotton Company of Zimbabwe (CCZ) and given greater commercial flexibility. The CCZ's ability to set prices for lint had been temporarily removed earlier this year, and the price for lint reduced, because the spinning industry was in crisis. This was a 6-month relief measure and had ended two days earlier, on 30 November. The Government expected a return to a market based pricing system. The issue of
tariff exemptions for new commercial companies that were hitherto statutory bodies had not yet been addressed, but clearly needed attention.

65. The Government had already relaxed controls to allow private business to export yellow maize, subject to permits issued by the Ministry of Agriculture, and such exports had taken place this year. The GMB continued to have a monopoly on international trade of white maize because of the domestic strategic nature of the product. Domestic maize marketing, however, had been fully liberalized. When agricultural commodity prices were controlled, situations did arise where producers received less than world market prices; however, with prices becoming market-based, returns to farmers would reflect the true value of their commodities.

66. Price controls had virtually been eliminated. The Government aimed to eliminate subsidies, and this was being achieved through the commercialization of public enterprises. There was no intention to reinstate the 9 per cent export incentive scheme. However, to assist exporters Government now allowed exporting firms to access relatively cheap off-shore financing. This was in addition to existing schemes already mentioned.

67. The establishment of Export Processing Zones had been approved by Parliament. The concept of EPZ in the Zimbabwe context envisaged, on the one hand, geographic zones and, on the other, enterprises with an agreed share of exports in their production. Details would be a matter for the EPZ Authority, on the basis of applications by developers.

68. A detailed study had been carried out on monopolies and competition policy in Zimbabwe. One major recommendation was the establishment of a Monopolies and Mergers Commission. A bill establishing such a Commission had been drafted and was expected to come before Parliament during the first half of 1995.

Additional comments

69. The second discussant thanked the Zimbabwean delegation for its comprehensive responses. The commitments to address the question of further tariff bindings and to look at the general legislative framework in light of the move to a market-based economy were welcomed. She asked whether a particular timetable was in place regarding the tariff review.

70. The first discussant also welcomed the commitment to address the questions of additional tariff bindings, as well as the recent removal of some items from the import licensing list. He noted the similarity between import permits and import licenses and drew attention to the Uruguay Round process of tariffication of non-tariff measures for agricultural products. He was also interested in whether Zimbabwe had begun to examine how to take measures to deal with all results of the Uruguay Round.

71. The representative of Zimbabwe stated that the study of the tariff structure was expected to be initiated early in 1995 and that implementation of Zimbabwe's new responsibilities as a result of the Uruguay Round was under study within the Government. The questions of import permits and tariffication would be covered in a later written submission along with other questions on import permits.
(3) **External Environment**

Replies by the representative of Zimbabwe

72. The success of Zimbabwe’s economic reforms, in particular the trade liberalization and investment promotion components, depended on a supportive and enabling external environment. The effective implementation of the Uruguay Round results by all participants offered Zimbabwe new challenges and opportunities for product and market diversification. Zimbabwe would benefit, in particular, in such export sectors as agriculture and mining, where it had a competitive advantage. The expected reductions in Lomé margins of preferences would serve to stimulate and challenge Zimbabwe in its search for new markets and non-traditional exports.

73. The Zimbabwe-South Africa trade agreement was currently being renegotiated in order to extend product coverage, simplify the agreement, and achieve a freer trading arrangement. Negotiations at the technical level began in September 1994. However, it was not possible to say when negotiations would be completed. On Zimbabwe’s trade with the rest of Africa, it was pointed out that Zimbabwe was a member of COMESA, which encompassed countries in both Eastern and Southern Africa. Because of the existence of a trade preference régime in this Treaty, it was expected that Zimbabwe’s trade with the other member countries would increase over time. Zimbabwe viewed COMESA as a building block towards the all African trade arrangement envisaged under the Abuja Treaty.

Additional comments

74. The first discussant welcomed the very positive spirit shown by Zimbabwe regarding the erosion of preferential margins as a result of the Uruguay Round. He stated his belief that tariff preferences did not in fact represent a trade advantage for the preference-receiving country, and cited the example of bananas under the Lomé agreement.

75. The second discussant stated that she too was impressed by the positive response of Zimbabwe to challenges that would result from the implementation of the Uruguay Round.

76. The representative of the EU asked Zimbabwe’s opinion regarding a recent proposal that the PTA be divided into two parts, one for SADC countries and the other for the northern African countries. Would this give the SADC a role in trade that it does not presently have? Might Zimbabwe join countries of the Southern African Customs Union and perhaps establish a common external tariff with those countries?

77. Zimbabwe was encouraged to continue its reform process, and to put into effect recommendations stemming from this Trade Policy Review, by the representative of Cameroon.

78. The representative of the United States thanked Zimbabwe for its comprehensive responses to the questions that had been raised. He asked for Zimbabwe’s comments on its policies providing margins of preference to local producers and construction contractors in bidding for government procurement contracts.

79. The representative of Zimbabwe noted that regional economic relations in Africa were currently under negotiation among many countries and would not be addressed here. He stated that questions regarding government procurement could not be fully answered now but would be raised for consideration by his government.
VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

80. In concluding this first Trade Policy Review of Zimbabwe, I should like to identify salient features of Zimbabwe's trade policies and practices that have emerged from the discussion. These remarks are, as usual, on my own responsibility and do not substitute for the Council's collective appreciation. The full debate will be reflected in the Minutes of this meeting.

81. Following the opening statement by Zimbabwe, the Council's discussion focused on three main themes:

(a) The macroeconomic and structural environment

82. 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 role 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.

83. 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.

(b) The international trade system

84. 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.

85. 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 emphasized 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.

86. 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 anti-dumping 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.

87. 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.

88. 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 anti-dumping 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.
(c) The outlook for the external environment

89. 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 emphasized 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.

90. 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

91. 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.